

Chairman's introduction to Corporate Governance

Embedding governance practices in our culture to support the Company's purpose



I believe that good standards of corporate governance are critical to the long-term sustainability of our business."

Philip Aiken AM
Chairman

Corporate Governance reporting

On the pages that follow, we have set out the Company's compliance with the 2016 UK Corporate Governance Code. Where practical we have aligned some content to recognise the new 2018 UK Corporate Governance Code (the 2018 code). We will report against the 2018 Code in full in the 2019 Annual Report.

Board leadership (including relations with stakeholders)

The Board is responsible for leading the business in the way it believes leads to the Company's long-term sustainable success. This includes effective engagement with shareholders and employees.

[→ 70 Read more](#)

Board Committees

The Board is supported in its work through the Safety and Sustainability Committee, the Nomination Committee and also the Group Tender and Investment Committee and Finance and General Purposes Committee.

[→ 77 Read more](#)

Division of responsibilities

The Board has a collective responsibility to lead but each member of the Board has a clearly defined role to ensure no individual or group of individuals dominates decision making.

[→ 74 Read more](#)

Audit, risk and internal control and Audit and Risk Committee

The Board defines Balfour Beatty's strategy, taking care to avoid unnecessary or unacceptable risks. The Audit and Risk Committee is appointed to oversee this process on behalf of the Board.

[→ 80 Read more](#)

Composition, succession and evaluation

We aim to ensure we have a balanced Board with the appropriate skills to govern the business, and an effective evaluation and succession plan. The Nomination Committee is appointed to lead on composition and succession matters on behalf of the Board.

[→ 75 Read more](#)

Remuneration

Our remuneration policy aims to attract, retain and motivate the right calibre of people to drive the performance of the business. We aim to operate this policy in a transparent manner. The Board has delegated this responsibility to the Remuneration Committee.

[→ 88 Read more](#)

Both the 2016 and 2018 UK Corporate Governance Codes can be found on the Financial Reporting Council's website: www.frc.org.uk.

Dear Shareholder

I am pleased to introduce this year's Corporate Governance report and to have the opportunity to share with you the activities of the Board during 2018. I believe that good standards of corporate governance are critical to the long-term sustainability of our business. In shaping the Group's strategic direction, we have sought to ensure that good governance practices are embedded in our culture and support our purpose of creating infrastructure, supporting communities and enabling growth.

Succession planning

In 2018, the full Board reviewed succession planning for our senior leaders including key roles below the Executive Committee. During the Board's scheduled annual visit to the US, we had the opportunity to meet with a range of senior colleagues and undertook a detailed review of succession plans focusing on the US. Directors make a number of visits to sites and offices in the UK and also the US specifically to meet as many of our colleagues as possible. The views of colleagues are then discussed with the rest of the Board. To enable Board members to directly support our pipeline of future leaders, individual mentoring relationships have been established.

At Board level, the Nomination Committee oversees all new appointments. Candidates are assessed against objective criteria through a rigorous selection process. We make appointments based on merit and do not believe in setting gender quotas. We adopted this approach in appointing Anne Drinkwater to our Board; who was judged to be the strongest candidate from those we considered.

We welcomed Anne as a non-executive Director to the Board in December 2018. Anne brings a wealth of experience of leading on large complex projects across multiple jurisdictions including the US from her long career at BP. With effect from 1 January 2019, Anne has joined the Safety and Sustainability Committee and the Remuneration Committee.

The Board undertakes a formal review of Committee composition each year and decided that no additional changes were required to the main Board Committees.

During 2018, terms of appointment for myself, Stuart Doughty and Stephen Billingham were reviewed in light of the contribution made by each of us to the effective operation of the Board. After consideration, the Board renewed each of our appointments for a further three-year term.

As is our usual practice, all Directors will stand for re-election, or election in the case of Anne Drinkwater, by shareholders at the AGM in May 2019 with the exception of Iain Ferguson. Iain will be retiring from the Board after the 2019 AGM and therefore will not be seeking re-election.

Further information on these matters is set out in the Nomination Committee report on page 77.

Independence of Directors

As is our usual practice, we carefully considered the independence of all Board members during the year taking account of the criteria set by the 2016 UK Corporate Governance Code and reviewing the conflicts of interest register, further details of which can be found on page 75.

Evaluation

An externally facilitated evaluation was conducted this year for which full details are set out on page 76. In consideration of what we had learnt in our internal reviews over the past two years – that the Board and Committees were functioning in accordance with their respective charters – I decided to adopt an approach which focused on the interpersonal effectiveness and performance of each Board member in the context of his or her personality profile and how this aligned with the profiles of other Board members.

Relations with stakeholders

The Board and I recognise the responsibility we have to a range of stakeholders including our customers, employees, key subcontractors, suppliers, the environment and the communities we operate in.

We are committed to open and effective dialogue with shareholders and meetings have been held with a range of institutional shareholders and also proxy advisory firms in order to directly discuss our strategic objectives and governance practices. In addition, meetings have been held with the UK Shareholders Association which represents retail shareholders.

The AGM is an important opportunity for private investors to engage with the Board and all shareholders are encouraged to attend.

During the year, in addition to the informal meetings of individual Directors during site and office visits referred to above, all Board members met with a range of colleagues at a 'Meet the Board' event at our Canary Wharf office. Further details of this can be found on page 73. Work is underway to develop and enhance the Board's formal approach to engagement with employees and we will report on this further in the 2019 Annual Report.

Safety and sustainability

The Board has continued to oversee our Company's approach to sustainability and health and safety. Although this work is led by our Safety and Sustainability Committee, the full Board receives a briefing paper on key metrics in this area at each meeting. More details of the Committee's work this year can be found on page 78.

Tragically during 2018, there were two separate fatalities suffered by our subcontractor partners, both resulting from third party incursions into our work sites. The Safety and Sustainability Committee received full briefings on these incidents and reviewed innovations and additional mitigations that could be undertaken to avoid such events in future. Such incidents are a sad reminder of the risk that our colleagues and partners face in delivering projects for our customers. The Board remains determined to drive industry-wide improvements in such areas to better protect our workforce across our operations.

Remuneration

Our remuneration policy was last approved by shareholders at the 2017 AGM. Details of how we intend to operate that policy in 2019 can be found in the Remuneration report on pages 88 to 103. We will be conducting a full review of our remuneration policy in 2019 and will then ask shareholders to approve our revised policy at the 2020 AGM.

UK Corporate Governance Code

During the year, the Board received a presentation on the new 2018 UK Corporate Governance Code. Processes and procedures including all Committee terms of reference and the Board's matters reserved are being reviewed in light of the changes brought in by the 2018 Code. We will report against the 2018 Code in the 2019 Annual Report.

For the current reporting period, we have applied the 2016 UK Corporate Governance Code (the 2016 Code), being the standard that applies to good corporate governance practice in the UK. The Company has complied fully with the requirements of the 2016 Code throughout the accounting period and to the date of this report.



Philip Aiken AM
Chairman

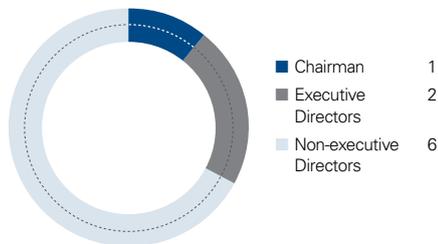
Board leadership

Board of Directors

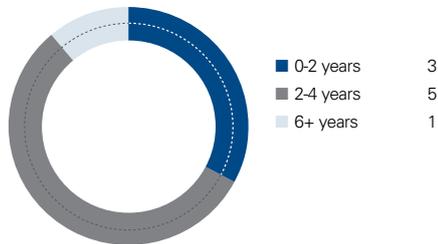
The Board has a collective responsibility for promoting the long-term success of the Company which is achieved by having members with a balanced range of individual skills and experience.

Set out below are some key metrics relating to the Board as at 31 December 2018.

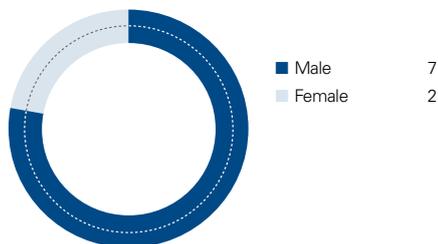
Board balance



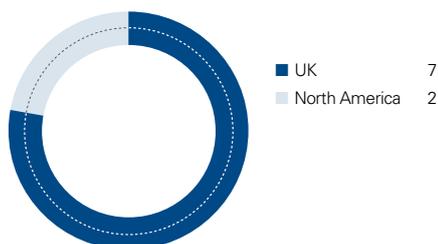
Board tenure



Board gender



Board geography



During 2018, there were no changes made to the composition of the main Board committees.

Anne Drinkwater was appointed to the Board on 1 December 2018 and appointed to the Safety and Sustainability Committee and the Remuneration Committee on 1 January 2019.

Iain Ferguson, Senior Independent Director and chair of the Remuneration Committee will step down from the Board at the conclusion of the AGM in May 2019.

Stephen Billingham will be appointed as Senior Independent Director and Anne Drinkwater will be appointed as chair of the Remuneration Committee. Both of these appointments will be effective from the conclusion of the AGM in May 2019.



Key for committee membership:

AR – Audit and Risk Committee
 Rem – Remuneration Committee
 Nom – Nomination Committee
 SS – Safety and Sustainability Committee
 GTIC – Group Tender and Investment Committee
 FGPC – Finance and General Purposes Committee

1 Philip Aiken AM

Chairman

Date of appointment: 26 March 2015

Age at 12 March 2019: 70

Committee membership: Nom (Chair)/Rem/SS

Experience: Philip has over 45 years of board-level experience including extensive international business expertise, principally in the resources sectors.

Philip was a non-executive director of National Grid plc, chairman of Robert Walters plc and a non-executive (and senior independent) director of Kazakhmys plc and Essar Energy plc, and a senior adviser at Macquarie Bank Ltd. Prior to that, he was Group President Energy BHP Billiton and President BHP Petroleum, chief executive of BTR Nylex, and held senior roles in BOC Group. Philip was awarded a Member of the Order of Australia in June 2013.

During 2018, Philip served as the chairman of Gammon China Ltd, the 50:50 joint venture between Balfour Beatty and Jardine Matheson, and its subsidiary Gammon Construction Holdings Ltd. Philip now serves as a non-executive director of the Gammon business.

External responsibilities: Philip is non-executive chairman of Aveva Group plc and a non-executive director of Newcrest Mining Limited.

2 Leo Quinn

Group Chief Executive

Date of appointment: 1 January 2015

Age at 12 March 2019: 62

Committee membership: Nom/SS/GTIC (Chair)/FGPC (Chair)

Experience: Leo has strong leadership expertise and has significant experience of successfully delivering transformation strategies for large multi-national companies.

Leo is a civil engineer and began his career at Balfour Beatty. He was educated at Portsmouth University and Imperial College, London where he completed his MSc in Management Science. Before being appointed as Group Chief Executive at Balfour Beatty, Leo spent four years as group chief executive of QinetiQ Group plc and prior to that, five years as chief executive officer of De La Rue plc. Before this, he spent almost four years as chief operating officer of Invensys plc's production management business, headquartered in the US and 16 years with Honeywell Inc. in senior management roles across the UK, Europe, the Middle East and Africa, including global president of H&B Enterprise Solutions. Leo was previously a non-executive director of Betfair Group plc and Tomkins plc.

External responsibilities: Leo is the founder of 'The 5% Club', a UK employer led initiative focused on creating momentum behind the recruitment of apprentices and graduates into the workforce.

3 Philip Harrison

Chief Financial Officer

Date of appointment: 1 June 2015

Age at 12 March 2019: 58

Committee membership: GTIC/FGPC

Experience: Philip has considerable financial expertise and extensive experience of working in large multi-national manufacturing and services businesses.

Philip was appointed as Chief Financial Officer in June 2015 having previously served as group finance director at Hogg Robinson Group plc, and as group finance director at VT Group plc. Prior to that, he was VP Finance at Hewlett-Packard Europe, Middle East and Africa region and was a member of the EMEA board. Philip's earlier career included senior international finance roles at Compaq, Rank Xerox and Texas Instruments. Philip is a fellow of the Chartered Institute of Management Accountants.

4 Iain Ferguson CBE

Non-executive Senior Independent Director

Date of appointment: 1 January 2010

Age at 12 March 2019: 63

Committee membership: Rem (Chair)/Nom/SS

Experience: Iain has considerable remuneration experience and brings significant leadership and strategic oversight skills to the Board.

Iain spent 26 years at Unilever in a succession of roles culminating in his appointment as senior vice-president, corporate development. Following this, Iain joined Tate & Lyle in 2003 as chief executive, serving in that role for six years.

He was also formerly chairman of Berendsen plc and of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office. Iain also previously held the roles of non-executive director of Sygen International and of Greggs plc.

External responsibilities: Iain is non-executive chairman of Stobart Group Limited, Hallmarq Veterinary Imaging Limited and a non-executive director of Personal Assets Trust plc. Iain is also a council member of Cranfield University and governor emeritus of the British Nutrition Foundation.

5 Barbara Moorhouse

Non-executive Director

Date of appointment: 1 June 2017

Age at 12 March 2019: 60

Committee membership: AR/Rem

Experience: Barbara has extensive leadership experience across the private, public and regulated sectors. She was group finance director at Morgan Sindal plc, regulatory director at South West Water and chief finance officer for two international listed IT companies – Kewill Systems plc and Scala Business Solutions NV. Subsequently, Barbara was Director General at the Ministry of Justice and the Department for Transport. Her most recent executive appointment was as chief operating officer at Westminster City Council. She is a fellow of the Chartered Institute of Management Accountants and an Associate Member of the association of Corporate Treasurers.

External responsibilities: Barbara is currently chair of the Rail Safety Standards Board, a non-executive director of Microgen Plc and Agility Trains, and a trustee for Guy's and St Thomas' Charity.

6 Dr Stephen Billingham

Non-executive Director

Date of appointment: 1 June 2015

Age at 12 March 2019: 60

Committee membership: AR (Chair)/Nom

Experience: Stephen has significant recent and relevant financial experience and has worked in the construction, infrastructure and support services industries for over 30 years.

Stephen was group finance director (CFO) of British Energy Group plc (FTSE 100 power generator) and WS Atkins plc (FTSE 250, and the UK's largest engineering consultancy) and ran Punch Taverns plc (the UK's second largest pub owner) as executive chairman. He played instrumental roles in the financial and operational turnarounds of all three companies. He also spent 11 years with Balfour Beatty's predecessor company BICC plc in corporate finance and other roles. He is a fellow of the Association of Corporate Treasurers.

External responsibilities: Stephen is currently non-executive chairman of Anglian Water Group Ltd and Urenco Ltd. He chaired the Urenco Ltd Audit Committee from 2009 to 2015 and was a member of the Anglian Water Audit Committee from 2014 to 2018.

7 Stuart Doughty CMG

Non-executive Director

Date of appointment: 8 April 2015

Age at 12 March 2019: 75

Committee membership: SS (Chair)/AR/Nom

Experience: Stuart has over 54 years' experience in the civil engineering, construction and infrastructure sectors.

Stuart was chief executive of Costain Group PLC between 2001 and 2005. This followed executive positions in Welsh multi-utility Hyder plc, Alfred McAlpine plc and Tarmac Construction, where he represented the company on the Channel Tunnel board, following 21 years with John Laing Construction. He has also served as a senior non-executive director of Scott Wilson Group plc, and as chairman of Alstec Ltd, Somero Plc and Beck and Pollitzer Limited. He is a Chartered Engineer and a fellow of both the Institution of Civil Engineers and the Institute of Highway Engineers. Stuart was honoured in 2004 by the Queen with a CMG and also received an honorary doctorate from Aston University in 2018.

External responsibilities: Stuart is the chairman of the Finance and Major Projects Committee for Aston University.

8 Michael Lucki

Non-executive Director

Date of appointment: 1 July 2017

Age at 12 March 2019: 62

Committee membership: AR/Rem

Experience: Over 35 years of business and leadership experience in the US and internationally in the engineering and construction sector.

Michael has held a number of leadership and finance roles, including chief financial officer, executive vice president and board member at CH2M Hill. He was formerly an audit partner at Ernst & Young LLP and appointed as their Global Industry Leader for Infrastructure, Construction and Engineering Practices. Latterly, he has acted as a strategic advisor to companies and private equity firms in the engineering and construction industry.

External responsibilities: Michael is currently a board member at Psomas and also serves as an advisory board member at Anchor QEA, LLC. He is a trustee of the California State University Foundation Board and a member of the Investment Advisory Committee of The California State University System.

9 Anne Drinkwater

Non-executive Director

Date of appointment: 1 December 2018

Age at 12 March 2019: 63

Committee membership: Rem/SS

Experience: Anne has significant experience in heavy industry including multiple large capital expenditure projects with infrastructure considerations and knowledge of doing business in the UK and US. Anne was at BP plc for over 30 years, holding a number of senior strategic and operational roles across multiple jurisdictions including the US, Norway, Indonesia, the Middle East and Africa culminating in the role of president and CEO of the Canadian business. Anne has previously held non-executive director roles at Aker Solutions A.S.A. and UK listed Tullow Oil plc where she served on a number of key board committees. She was previously oil and gas advisor to the Falkland Islands Government.

External responsibilities: Anne is a non-executive director of Equinor A.S.A.

Board leadership continued

Corporate governance framework

The Board has a formal schedule of matters reserved for its decision and separate terms of reference for each of its Committees. As referenced in the preceding pages, there are four main Board Committees (Audit and Risk, Nomination, Remuneration and Safety and Sustainability). In addition, there is a Group Tender and Investment Committee and a Finance and General Purposes Committee, which are led and managed by the executive Directors with reports on their activities being made to the Board as appropriate. Verbal reports on meetings of the main Board Committees are provided at each full Board meeting by the relevant Committee chair.

Each Committee reviews its own terms of reference annually and these are then reviewed by the full Board together with the matters reserved to the Board. The matters reserved to the Board cover points affecting the Group as a whole including its strategy and budget, risk, high value investments/ expenditure and approval of the Group financial statements and dividends. The full terms of reference for all Board Committees are available on our website <https://www.balfourbeatty.com/investors/governance/board-committees/>.

Responsibility for the day-to-day running of the Group is delegated to the Group Chief Executive who in turn delegates particular responsibilities to different individuals and functions through his Executive Committee of direct reports.

To ensure that decisions are taken at the right level within the Group by those best placed to take them, the Group Delegated Authorities set out in detail the authority afforded to each function and senior individuals across the UK and US. Having this central point of reference for all colleagues ensures there is a consistency of approach across the UK and US and allows the business to operate without creating bureaucratic and burdensome processes.

During 2018, the Group Delegated Authorities were thoroughly refreshed to re-align them with changes to the Group's business structure leading to stronger accountability.

Board and Committee meetings

Set out in the table opposite are details of individual Directors' attendance at meetings. The Chairman encourages all Directors to attend all Committee meetings unless conflicted e.g. where an individual's term of appointment, performance or remuneration is being considered.

Additional attendees are invited to attend Board and Committee meetings at the discretion of the relevant chair e.g. the Group Financial Controller and Group Head of Risk and Audit are invited to attend all Audit and Risk Committee meetings together with representatives of the Company's auditor KPMG LLP.

During the year, the Chairman met with the non-executive Directors without the executive Directors present.

Where Directors have not been able to attend part of a Board or Committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman or the Committee chair, as appropriate.

Board and Committee agendas

A forward agenda is established for the Board and each of the main Board Committees to ensure that items are scheduled at the appropriate time during the year. Capacity is maintained on the agenda for each meeting to allow for the timely consideration of matters as they arise during the year. Regular deep dive presentations form part of the annual meeting cycle focusing on particular business areas or major projects of strategic importance to the Group.

A non-exhaustive list of matters considered by the Board during 2018, includes:

- progress with Phase Two of the Build to Last transformation programme
- Group strategy and budgets

- Group financial performance including annual and interim financial statements
- bid and contract updates
- legacy contract out-turns
- pipeline of significant projects
- health and safety performance
- significant human resources issues, including succession planning and diversity matters
- consideration of issues relating to major disputes, proceedings or other matters with a potentially adverse effect on the Group's reputation
- results of employee engagement surveys.

Speak up

The Group provides a service, Speak Up, which enables colleagues to report, anonymously if they choose, their concerns relating to unethical conduct affecting all areas of the business. Reports on the operation of this are provided to the Board biannually by the Group Head of Business Integrity. Further details of the service can be found on page 36.

Conflicts of interest

The Board has established formal procedures for the declaration, review and authorisation of any conflicts of interest of Board members. Conflicts are considered by the full Board on an annual basis. The Board was satisfied that none of the Directors had any conflict of interest during the year which could not be authorised by the Board.

Director	Board	Audit and Risk	Safety and Sustainability	Nomination	Remuneration
Philip Aiken	8(8)		3(3)	2(2)	4(4)
Leo Quinn	8(8)		3(3)	2(2)	
Philip Harrison	8(8)				
Iain Ferguson	7^(8)		2*(3)	2(2)	4(4)
Barbara Moorhouse	8(8)	4(4)			4(4)
Stephen Billingham	8(8)	4(4)		2(2)	
Stuart Doughty	7^(8)	4(4)	3(3)	2(2)	
Michael Lucki	8(8)	4(4)			4(4)
Anne Drinkwater	1(1)				

* Iain Ferguson – both absences were for meetings that were held on the same day and were due to unavoidable external commitments.

^ Stuart Doughty – absence due to illness.

The number shown in brackets is the total number of meetings the Director could attend during the year (including as a result of changes to Committee memberships).

All serving Directors attended the AGM held on 24 May 2018. In addition to the information reported above, the Chairman, Group Chief Executive and Chief Financial Officer routinely attend meetings of the Audit and Risk Committee. The Group Chief Executive also routinely attends meetings of the Remuneration Committee, except when matters relating to his own remuneration are discussed.

Relations with stakeholders

The Board has a responsibility to a range of stakeholders including the Group's customers, key subcontractors and suppliers and to the environment and the communities in which the Group operates. Set out below are details of the Board's engagement with two key stakeholder groups; employees and shareholders.

Employee engagement

Although the Group people plan has its foundation in the Build to Last transformation programme, the Board recognises the importance of its own role in ensuring constructive employee engagement to build a sustainable business.

Meet the Board

In 2018, a 'Meet the Board' event was held for staff at the Company's office in Canary Wharf. The event was publicised internally and via the Canary Wharf office social events committee and was open to all employees to attend whether or not they were based in Canary Wharf.

The Chairman delivered a presentation followed by a Q&A session. The other Board members were also available to answer questions. Further informal discussion continued over tea and coffee.

The intention of this session was for the Board to have the opportunity to engage with a wide range of employees. Members of the Board discussed roles and responsibilities and also heard directly from those in attendance about issues that matter to them.

The event was a great success with over 90 employees attending and a large number of questions being asked.

A further session was held in March 2019 in the Canary Wharf office with other office locations also being reviewed as locations for future events.

Further employee engagement

The Board has historically received updates and presentations on people related matters and routinely receives reports on the results of employee engagement surveys.

Notwithstanding this, plans are underway to further develop and formalise the Board's engagement programme with employees which will be detailed in the 2019 Annual Report.

Shareholder engagement

The Board places great importance on having positive relationships with all shareholders and seeks to ensure that there is an appropriate level of dialogue with investors.

The Group's website is an important resource for the Company to communicate to all stakeholders and in particular provides information useful for shareholders. Further engagement activities are set out below.

Institutional investors

As part of the Group's investor relations programme, the Chairman and executive Directors met with institutional shareholders throughout 2018. Other Board members, including the Senior Independent Director, also met with shareholders.

Details of meetings held were shared with the rest of the Board during the year. In addition to these 1:1 meetings, group sessions were held with current and prospective shareholders in attendance. Board members also attended and spoke at investor conferences.

An annual detailed review of investor relations activities, including shareholder meetings and conferences, was provided to the Board by the Head of Investor Relations together with a summary of analyst research briefings and an overview of the Company's share price movement.

Proxy advisory firms

Together with the Head of Investor Relations and the Deputy Company Secretary, the Chairman met with proxy advisory firms to directly communicate the Company's strategic priorities and governance practices. Verbal reports of proxy advisory meetings were provided to the full Board.

Retail shareholders

An event was hosted for the UK Shareholders' Association at the Canary Wharf office, attended by the Head of Investor Relations and the Deputy Company Secretary. The event was well attended with approximately 30 retail shareholders hearing a presentation from the Chairman on the Group's performance followed by a Q&A session. The discussion continued informally over a light lunch.

Following the success of this event, a further session is planned for April 2019.

Annual General Meeting

The AGM is an important event in the Board calendar and all shareholders are encouraged to participate whether by attending in person, asking questions or casting their vote in advance of the meeting. All resolutions continue to be put to a poll rather than a show of hands to ensure that the votes of all shareholders are counted even if they are unable to attend the meeting.

Each substantially separate issue is proposed via a separate resolution and proxy forms provide for shareholders to vote for, vote against or withhold their vote on each resolution.

All Board members attend the AGM and are available to answer questions during the formal part of the meeting as well as being present for informal discussion over refreshments after the AGM.

2019 Annual General Meeting and Class Meeting of Preference Shareholders

The 2019 AGM will be held at Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD on Thursday 16 May 2019 commencing at 11am.

Immediately following the AGM, a Class Meeting of the holders of the Company's cumulative convertible redeemable preference shares will be held.

Shareholders are encouraged to attend these meetings and ask any relevant questions they may have.

Division of responsibilities

The Board has a collective responsibility as set out above. Notwithstanding this, the division of responsibilities across all Board members is clear with each having a defined role with individual duties. A distinction is made between the leadership of the Board which is the Chairman's responsibility and the executive leadership of the Company's business which is the Group Chief Executive's role. The balance of responsibilities at Board level is set out below and demonstrates that no one individual has unfettered powers of decision-making.

Group Chief Executive

The Group Chief Executive is responsible for the day-to-day management of the Group and the delivery of the strategy as set by the Board.

Chairman

The Chairman leads the Board and ensures its effectiveness in directing the Company. The Chairman achieves this through promoting a culture of open and constructive debate among all Board members, both executive and non-executive. The Chairman encourages high standards of corporate governance, meeting with investors throughout the year to actively communicate with them.

Senior Independent Director

The Chairman is supported by the Senior Independent Director who acts as a sounding board for the Chairman and as an intermediary for the non-executive Directors and for investors. The Senior Independent Director leads the appraisal of the Chairman's performance.

Non-executive Directors

All of the non-executive Directors are considered to be independent under the Code. They are each responsible for providing strategic guidance and scrutinising and challenging the performance of management. In addition, all the non-executive Directors serve on at least one of the main Board committees, each of which is chaired by a non-executive Director. Through these committees but also through the main Board, the non-executive Directors ensure that the integrity of financial information and financial controls and systems of risk management are robust and defensible. They also determine appropriate levels of remuneration and are involved in succession planning and appointments.

Time commitment of Directors

The Board recognises the importance of individual members having sufficient time available to discharge their duties effectively. Additional commitments of Directors are carefully reviewed on appointment, before new directors are accepted onto the Board.

Each Director declares his or her external appointments and commitments to the Board on an annual basis as part of their conflict of interest declaration. In addition, a new policy has been implemented in 2019 to ensure that any new external responsibilities being considered by Directors are notified to the Chairman who can arrange for full Board approval if necessary. Before approval is given, an internal review is conducted to identify any potential conflicts of interest.

The Chairman's significant commitments are set out in his biography on page 71 and have not changed during 2018. Neither of the executive Directors holds any non-executive board positions at a FTSE 100 company. Leo Quinn holds the chairmanship of the 5% Club of which he was a founder (more details are set out on page 71).

Company Secretary

The Board is supported by the Company Secretary who is responsible for ensuring that the Board is able to function effectively and efficiently. In addition to making all logistical arrangements for meetings, the Company Secretary manages the policies and processes relating to the Board and ensures that the Board receives information in a timely manner.

With the retirement of David Mercer, a new Company Secretary, Jonathan Lagan was appointed in February 2019. Jonathan met with the Chairman, Chief Executive Officer and Chief Financial Officer as part of the selection appointment process and had 1:1 meetings with all other Board members as part of his induction.

Composition, succession and evaluation

Composition

As set out on pages 70 and 71, the Board consists of nine members, comprising the Chairman, Group Chief Executive, Chief Financial Officer and six independent non-executive Directors. With the retirement of Iain Ferguson in May 2019, the Board will revert to having eight members, including five independent non-executive Directors. The Board considers this to be an appropriate size to manage the requirements of the business.

Independence of Directors

By the criteria set by the Code, the Chairman was independent at the time of his appointment. As referenced above, all of the non-executive Directors are considered to be independent under the Code. This includes Stephen Billingham notwithstanding his directorships at companies that have a business relationship with the Group, as the value of such relationships is not considered to be material (more detail relating to value is set out in Note 36 on page 177).

Stephen is also a member of the Company's pension scheme from his time as an employee of the Group 15 years ago. The Board are all apprised of this and a fresh declaration is made by Stephen and recorded in the minutes at any meetings where there is discussion relating to the Group's pension scheme. Iain Ferguson has served on the Board since January 2010 and has remained independent throughout his tenure. Iain has now reached nine years of service on the Board and has informed the Board of his intention to retire as a Director following the AGM in May 2019. More details are available on page 77.

Succession and tenure

On behalf of the Board, the Nomination Committee reviews succession planning of Directors. Further information on the work of this Committee is set out on page 77.

In December 2018, Anne Drinkwater was appointed to the Board as an independent non-executive Director. The search process was led by the Nomination Committee and all Board members were kept updated of progress. Further details are set out on page 77.

All Directors are subject to annual re-election by shareholders at the AGM where terms of appointment for each non-executive Director are available for inspection. Set out in the Notice of AGM is information on the skills and experience of each Director seeking re-election or election. During 2018, terms of appointment were renewed for the Chairman, Stephen Billingham and Stuart Doughty, each for a second three-year term and further details are set out on page 77.

Set out below is the current length of tenure for the Chairman and each non-executive Director as at 31 December 2018:

Director	Tenure
Philip Aiken	3 years 9 months
Iain Ferguson	9 years
Barbara Moorhouse	1 year 7 months
Stephen Billingham	3 years 7 months
Stuart Doughty	3 years 8 months
Michael Lucki	1 year 6 months
Anne Drinkwater	1 month

Induction, training and development

Following the appointment of new Board members, the Company Secretary in conjunction with the Chairman prepares a tailored induction programme. The new Director is consulted to ensure that areas of particular interest to him or her are prioritised or emphasised as necessary. This approach was taken in arranging the induction of Anne Drinkwater, appointed in December 2018. Meetings were held for Anne to speak directly to all members of the Executive Committee and other senior leaders across the Group, and visits to office and site locations across the UK and the US were arranged.

In addition, Anne was provided with access to a suite of induction materials via the electronic Board portal. These materials are also available to all other Board members as a continuing point of reference. Included in the pack are key internal governance documents, information relating to the business of the Company and policies and procedures relating to the operation of the Board.

The induction programme provides the foundation for the ongoing training and development of Board members. The Chairman maintains a dialogue with individual Directors to identify any specific training needs. Where appropriate, such training is delivered by the topic being included at a future Board meeting so that all Directors can benefit. Otherwise, training is delivered by way of formal presentations, individual meetings and visits to sites in order to learn more about a particular initiative or project. All Board members are encouraged to visit site and project locations throughout the year and Directors are invited to provide verbal reports of such visits at each Board meeting.

Information and support

During the year, the Company Secretary advised the Board on matters related to governance, ensuring Board procedures were followed and relevant statutory and regulatory requirements were complied with. The Company Secretary has responsibility for facilitating the timely distribution of information between the Board and its Committees and the executive and non-executive Directors.

The Directors have direct access to the Company Secretary for advice and he is able to arrange, at the Company's expense, for the Directors to receive independent professional advice where appropriate.

Composition, succession and evaluation continued

Evaluation

In accordance with the Code, the Board undertakes an annual evaluation of its performance and that of its Committees. An external evaluation is undertaken every three years, with internal evaluations carried out in the intervening years to consider the performance and effectiveness of the Board and its Committees, as well as the Chairman and individual Directors.

2018 evaluation

An externally facilitated evaluation of the Board was undertaken in 2018 by Dobson Lyle. The Company has previously engaged Dobson Lyle to provide services to review and assess the capability of senior leaders.

In considering the feedback from Directors and senior management from the two previous years' internal reviews, it was considered that the Board and its Committees were functioning in accordance with their respective charters. External facilitation was not needed to confirm this and therefore the approach adopted was to focus on the interpersonal effectiveness and performance of each Board member in the context of his or her personality profile and how this aligned with the profiles of other Board members. This focus on the specific skills and operating style of each Board member sought to identify the relative strengths of each Director thereby ensuring that each Director is appropriately and fully utilised in light of their capabilities. By profiling each Board member in this way, the overall efficacy and communication dynamics of the Board could be improved.

The evaluation was conducted through the completion of personality profiles for each Director individually, followed up by 1:1 interviews. An overarching report setting out the findings was prepared and presented to the Board by Dobson Lyle for further review. In addition to the full Board report, an individual review was prepared and provided to each Board member. Following this, the Chairman held 1:1 meetings with each Director to gather feedback on the outcome of the evaluation.

Stage 1

Completion of a detailed personality profile by individual Directors.

Stage 2

1:1 meetings conducted by Dobson Lyle with each Director based on the outcome of his or her personality profile.

Stage 3

Preparation of report for the whole Board and individual Directors.

Stage 4

Results presented to and reflected on at a Board meeting.

Stage 5

1:1 meetings with the Chairman and individual Directors to reflect on outcomes.

Key conclusions from the evaluation

This process was considered effective in improving the depth of understanding of how the Board operates and interacts through its constituent members and opportunities for improvement were identified.

Appreciation of individual styles and the impact this has on effective communication and decision making has led to an improvement in the operation of the Board, raising the standard of debate at meetings and the Board's performance overall.

Having reviewed all the materials and discussed the findings at some length, the Directors re-affirmed that the Board and its Committees are working very effectively.

Board Committees



Philip Aiken AM
Chair of the Nomination Committee

During 2018, the Committee has considered a range of matters, most notably leading on the process to appoint a new non-executive Director, Anne Drinkwater.

Nomination Committee report

In 2018, Philip Aiken served as Chairman of the Committee. Other members were non-executive Directors Stephen Billingham, Stuart Doughty and Iain Ferguson, and the Group Chief Executive, Leo Quinn. The full terms of reference for the Committee are available on our website <https://www.balfourbeatty.com/investors/governance/board-committees/>.

Activities during 2018

During 2018, the Committee considered Board succession planning, the balance of skills and experience on the Board, the appointment of a new non-executive Director and the renewal of existing Board members' terms of appointment.

Detailed reviews of internal talent and succession plans for executive Directors and senior leaders were presented to the full Board during 2018 including a focus on US leadership during the Board's visit to Dallas, Texas.

The succession of the executive Directors was discussed at a meeting of the non-executive Directors without the executive Directors present. The Committee also considered the impact and associated succession planning required in light of Iain Ferguson completing nine years of service as a Board member. This was particularly significant given Iain's roles as Senior Independent Director and chair of the Remuneration Committee. The Committee made its recommendations in respect of these appointments to the full Board for approval.

Diversity and inclusion

Diversity and inclusion remain central to Balfour Beatty's people strategy. The Committee recognises that it is not only right to ensure that people of all genders and backgrounds are able to access fulfilling careers in the construction industry; but that a business which reflects the society it serves will be better placed to continue to deliver for its stakeholders. By encouraging people of all backgrounds to join the Group, and enabling them to do their best, the Group is able to help bridge the skills gap this industry continues to face.

In the UK, in order to promote the inclusivity of people of all backgrounds, the Company has developed four employee affinity networks across key areas of protected characteristics which all employees are encouraged to join regardless of gender, race, ability or sexual orientation: LGBT, Gender Equality, Multi-Cultural/BAME and Ability (which seeks to identify and remove barriers to enable people with disabilities to join the

Group and to reach their full potential). Development of talent at all levels of the business remains a key focus for the Group and the Committee seeks to apply this approach in respect of appointments to the Board.

Appointment of new non-executive Director

In securing the appointment of Anne Drinkwater as a new independent non-executive Director, an external search agency, Ridgeway Partners was engaged in order to identify suitable candidates. Ridgeway Partners has supported the Board in previous selection processes for new Board members but has no other connection with the Company.

The Committee was keen to ensure that a fair process was undertaken to identify candidates on the basis of merit and objectively determine the strengths and skills that would complement those of existing Board members. Anne's considerable experience working at BP plc on multiple large capital expenditure projects with infrastructure considerations makes her a strong addition to the Board. Her knowledge of doing business in the UK and US also reflects the Group's focus on these jurisdictions.

Renewal of terms of appointment

In reviewing existing Board members' terms of appointment, Phil Aiken, Stephen Billingham and Stuart Doughty each reached the end of their initial three-year term as Board members during 2018.

The Committee considered the individual performance and contributions made by each of these Directors over the past three years. The Committee was satisfied that each of them would continue to be effective in their roles and offered each a further three-year term in accordance with the Code. Each of the Directors recused themselves from the discussion where his own appointment was considered. For the consideration of the Chairman Philip Aiken's renewal of appointment, the Senior Independent Director chaired the meeting.

Focus for 2019

With the introduction of the 2018 Code, the Committee will review its terms of reference to ensure its scope is expanded to formally address new requirements, particularly in the areas of diversity across the Group.

Succession planning will remain a key priority for the Committee to ensure that the pipeline of the Group's leadership remains aligned with the strategic direction of the business. The balance of skills and experience at Board level will also continue to be monitored.



Stuart Doughty
Chair of the Safety and Sustainability Committee

Among the Committee's duties are to review the strategies, policies and performance of the Group in relation to health, safety, environment and sustainability, and to drive improvement in these areas.

Safety and Sustainability Committee report

During 2018, Stuart Doughty has continued to chair the Committee. Other members during the year included the Chairman Philip Aiken, independent non-executive Directors Stephen Billingham and Iain Ferguson, and the Group Chief Executive, Leo Quinn. Anne Drinkwater was appointed to the Committee on 1 January 2019.

Committee's duties

Among the Committee's duties are to review the strategies, policies and performance of the Group in relation to health, safety, environment and sustainability, and to drive improvement in these areas. 'Safe' is one of the Group's four Build to Last goals and the Committee, on behalf of the Board, is responsible for reviewing the Group's strategies, policies and procedures in relation to health and safety. In addition, the Committee reviews and approves targets and key performance indicators on health and safety and monitors performance against those targets. With regard to sustainability, the Committee reviews the environmental and social performance of the Group, including but not limited to carbon emissions, energy, resource efficiency and compliance. The full terms of reference for the Committee are available on our website <https://www.balfourbeatty.com/investors/governance/board-committees/>.

Activities during 2018

The Committee met three times during 2018. In addition to receiving routine reports on matters relating to both safety and sustainability, detailed briefings were provided on significant incidents that had occurred including high potential events that could under other circumstances have caused serious harm.

As reported on page 69, sadly during this year, the Committee received in-depth reports on two fatalities that occurred in 2018 due to third party incursions into Balfour Beatty work sites. Detailed briefings were received on the investigations carried out following each incident and learnings and improvements identified.

During 2018, the Committee has overseen improving trends in safety performance across the Group (excluding international joint ventures) with increasing levels of safety observations indicating a greater workforce engagement. The Committee has continued to support the sharing of best practice across geographies on learnings from incidents and also innovation opportunities between the UK and US businesses and with Gammon, the Group's 50:50 joint venture operation based in Hong Kong. A drive towards treating health like safety was also progressed this year with mental health being a key priority.

In relation to sustainability, the Committee reviewed environmental incidents and environmental performance, discussed a number of innovations that are being used to reduce energy and associated carbon emissions and deliver significant cost savings and examined how data was being used to drive positive behaviours, reduce fuel consumption and associated emissions and costs as well as improve safety.

Committee members were active in visiting sites throughout the year, where they were able to reference the health and safety calendar for monthly focus areas and see at first hand the safety and sustainability measures being implemented at site level.

Areas of focus for 2019

In 2019, the Committee will continue to promote a strong safety culture and support the initiative to treat health like safety including an ongoing focus on mental health activities.

In line with the Group's 25 by 2025 vision, reducing the volume of materials, associated carbon and waste across project sites will also be a priority. The Committee is keen to review Our Blueprint (the Group's sustainability strategy) and an update on the United Nation Assembly's Sustainable Development Goals will be provided to assist this review. Overseeing progress on targets to reduce carbon emissions will also be key and consideration will be given to the development of appropriate metrics with the Science Based Targets initiative on corporate climate change action. There will also be a continued focus on subcontractor engagement and supply chain engagement.

Our Blueprint can be accessed at: <https://www.balfourbeatty.com/media/195840/sustainability-blueprint-2017.pdf>.



Leo Quinn
Group Chief Executive

Group Tender and Investment Committee report

The Committee is chaired by Leo Quinn as the Group Chief Executive, or in his absence, the Chief Financial Officer, or in his absence by any one of four senior business unit leaders. Those business unit leaders are not permitted to chair any meeting which reviews proposals from those areas of the business for which he or she has executive responsibility.

The Committee has overall authority and responsibility for the content, maintenance and operation of the Gated Business Lifecycle. The Committee meets regularly throughout the year to discuss proposed projects at the various stages of their development and review all major proposed tenders with projected values above specified levels, with a specific focus on risk. Those contracts which are considered to be of a significant size and risk to the overall Group are reviewed by a committee of the Board.

Any member may convene a meeting of the Committee to discuss any of the tender reviews in more detail. Key members of the team involved with the project being considered and their strategic business unit leaders attend each meeting in addition to Committee members. Minutes of all meetings are made available to all Directors.

Finance and General Purposes Committee report

The Committee is chaired by Leo Quinn as the Group Chief Executive, or in his absence, by the Chief Financial Officer.

The Committee is responsible for agreeing the Group's borrowing and banking arrangements, management of foreign exchange exposures, contract financing, bonding and leasing arrangements and various matters relating to the issued share capital of the Company.

A summary of all the business conducted at the meetings is provided to all Directors.

Audit, risk and internal control

Risk management and internal control

Risk management

The Board recognises that successful delivery of the Group's strategic and day to day objectives is underpinned by a comprehensive and consistent assessment of relevant risks. Effective, agile and universally applied risk management principles enable the Group to accurately examine its risk profile against its accepted attitude and appetite, limit its exposure to unacceptable risk and ensure long-term viability. Once key risks to delivering value to the Group and its stakeholders are identified a decision is made to treat, tolerate, terminate or transfer potential exposure. For more information, refer to pages 55 to 66.

The Board is committed to meeting the relevant requirements of the UK Corporate Governance Code and has applied the principles of the Code in establishing procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Group is willing to take in order to achieve its long-term strategic objectives.

Roles and responsibilities

The Board is responsible for the implementation and oversight of Balfour Beatty's risk management framework and examining and verifying the internal control environment. It sets the Group's appetite for and attitude towards risk in pursuit of

its agreed strategic objectives and drives an effective risk management culture. The Board directs the level of risk that can be taken by Group, strategic business unit and individual business unit management without specific approval. Group policies, procedures and delegated authority levels set by the Board provide the structure in which risks are reviewed and escalated to the appropriate level within the Group, up to and including the Board, for consideration and approval.

The roles and responsibilities of the Board, its Committees, strategic business unit and individual business unit management are set out below.

	Responsibilities	Actions undertaken
1 Board	<ul style="list-style-type: none"> Responsible for the Group's systems of risk management and internal control Determines Group appetite for and attitude to risk in pursuit of its strategic objectives. 	<ul style="list-style-type: none"> Issues and reviews the Group risk management policy Annually reviews effectiveness of Group risk management and internal control systems Reviews the Group's risk landscape, principal risks and risk responses.
Audit and Risk Committee	<ul style="list-style-type: none"> Reviews significant accounting judgements Reviews the effectiveness of Group internal controls, including systems to identify assess, manage and monitor risks Agrees the Group Internal Audit Plan. 	<ul style="list-style-type: none"> Receives regular reports on internal and external audit and other assurance activities Annually assesses Group risk management and internal control systems Reviews effectiveness of the Group's helpline and other channels for raising concerns about Code of Conduct breaches.
Safety and Sustainability Committee	<ul style="list-style-type: none"> Reviews management of non-financial risks such as health and safety, and sustainability. 	<ul style="list-style-type: none"> Receives regular reports on implementation of Group policies and procedures on non-financial risks.
Group Tender and Investment Committee	<ul style="list-style-type: none"> Reviews and approves tenders and investments, triggered by certain financial thresholds or other risk factors. 	<ul style="list-style-type: none"> Critically appraises significant tender proposals and investment/divestment opportunities, with a specific focus on risk.
2 Group management	<ul style="list-style-type: none"> Strategic leadership Responsible for reviewing and implementing the Group risk management policy Ensures appropriate actions are taken to manage strategic risks and other key risks. 	<ul style="list-style-type: none"> Strategic plan and annual budget process Produces and tracks Group Risk Register Reviews risk management and assurance activities and processes Monthly/quarterly finance and performance reviews.
3 Strategic business unit management	<ul style="list-style-type: none"> Responsible for risk management and internal control systems within its business Ensures that business units' responsibilities are discharged. 	<ul style="list-style-type: none"> Reviews key risks and mitigation plans Reviews and challenges business units' internal control environment Reviews results of internal control testing Escalates key risks to Group management and the Board.
4 Business unit management	<ul style="list-style-type: none"> Maintains an effective system of risk management and internal control within its business unit and projects. 	<ul style="list-style-type: none"> Maintains and regularly reviews project, functional and strategic risk registers Reviews mitigation plans Plans, executes and reports on internal control testing.

Risk management process

Mandated by the Balfour Beatty's risk management policy, all business units are responsible for ensuring that effective arrangements, and management controls, are established and implemented for the management of risk. The Group's hierarchy of risk management is to prioritise reduction in the likelihood of risk events occurring, mitigate the adverse impact where this is not possible and identify opportunities where taking risks might benefit the business. Balfour Beatty is relentless in ensuring that a positive risk management culture remains embedded at all levels.

When pursuing new opportunities, an assessment of risk forms a key part of the work winning process within the Gated Business Lifecycle. Risks are continuously assessed throughout the lifetime of each project to ensure potential exposure remains within an accepted tolerance.

Additionally, the Board issued updated and more detailed delegated authority levels in 2018 which act as triggers for the escalation of matters requiring approval. In relation to work winning, this means projects above a certain value, or those with unusual characteristics, such as a move into new markets, require approval by the Group Tender and Investment Committee or the Board, as appropriate.

Escalation and reporting structures ensure that risk oversight is rigorously applied at all levels of the business from operational review through to scrutiny by the Executive Risk Steering Group and the Board.

To be effective it is vital that the Group's approach to risk management remains reflective of the shape and direction of the business and the wider industry. In 2018 the Group Risk Register was completely refreshed, recategorised and reassessed and a key risk and control statement was drafted for review by the Group Chief Executive. To ensure a consistent application of the Group's risk management expectations the links between the central risk team and business units were strengthened and a bespoke risk assessment and escalation tool was developed with extensive input from the wider business.

Internal control

The Board has ultimate responsibility for the Group's risk management systems and internal control and regularly reviews their effectiveness. The Group's systems and controls are designed to ensure exposure to significant risk is both understood and appropriately managed. The Board recognises that any system of internal control is designed to identify and control rather than eliminate risk and can only provide reasonable and

not absolute assurance against material misstatement or loss. In addition, not all the material joint ventures in which the Group is involved sit wholly within Balfour Beatty's internal control environment. Where this is the case, separate systems of internal control and risk management are applied as agreed between the joint venture partners.

Central to the Group's systems of internal control are its processes and framework for risk management. These align with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and were in place throughout 2018 and up to the date of signing this report. The Group has a thorough understanding of its risk exposures and has mapped out its assurance network accordingly. Topics covered by Policies, Standards and Expectations include but are not limited to:

- a fully revised and reissued system of delegated authorities from the Board to management with certain matters reserved by the Board
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and management, including particular areas of business or project risk. This is used to update management's understanding of the environment in which the Group operates and the methods used to mitigate and control identified risks
- annual review of the strategy and plans of each business and of the Group as a whole to identify risks to the achievement of objectives and, where appropriate, any relevant mitigating actions
- a comprehensive suite of policies, manuals and instructions setting out the requirements of the Group Finance function covering the financial management of the Group, including but not restricted to arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, application of accounting policies and financial controls
- risk management expectations which are embedded throughout the Group
- enhanced systems for the management and reporting of risk which have been deployed throughout the Group
- reviews and tests by the internal audit function of critical business financial processes and controls and specific reviews in areas of perceived high business risk

- reviews and authorising of proposed investment, divestment and capital expenditure through the Board and Board Committees
- regular reporting, monitoring and review of the effectiveness of health, safety, environment and sustainability processes. These processes are subject to independent audit and certification to internationally recognised standards as appropriate
- legal and regulatory compliance risks which are addressed through specific policies and training on such matters as ethics, competition and data protection laws
- promotion of a culture of compliance with ethics and integrity responsibilities to help manage legal and reputational risks across the Group. An ethics helpline encourages staff to raise concerns, in confidence, about possible breaches of the Code of Conduct.

There is also an independent internal audit function that executes a risk-based programme of audit throughout the entire Group. All audit reports are shared with relevant business leaders in addition to being reviewed by the Audit and Risk Committee (see pages 82 to 84).

It is the expectation and requirement of the Board that business leaders ensure this comprehensive internal control environment (including internal audit) is embedded within their business units.

The Board's assessment of the risk management processes and internal controls during 2018 is based on reports it received and those presented to the Audit and Risk Committee and the Safety and Sustainability Committee, including:

- the results of the internal audit function's reviews of internal financial controls
- a Group-wide certification that effective internal controls had been maintained or, where any significant non-compliance or breakdown had occurred with or without loss, that appropriate remedial action has been or is being taken
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls.

Principal risks

The principal risks that could adversely impact on the Group's profitability and ability to achieve its strategic objectives are set out on pages 58 to 66.

Audit and Risk Committee



Stephen Billingham
Chair of the Audit and Risk Committee

Among the Committee's duties are to review significant accounting judgements, review the effectiveness of risk management and internal controls and assess the external and internal audit functions.

Audit and Risk Committee report

During the year the Committee comprised Stephen Billingham as Chairman, Stuart Doughty, Michael Lucki and Barbara Moorhouse. All members are independent non-executive Directors with further details of their skills, experience and qualifications set out on page 71.

Dr Stephen Billingham, formerly group finance director (CFO) of British Energy Group plc and of WS Atkins plc, has been identified by the Board as having recent and relevant financial experience. He is supported by Committee members with varied industry and commercial experience relevant to the construction sector.

Partners from the external auditor, the Group Risk and Audit Director, the Chairman, the Group Chief Executive, the Chief Financial Officer and the Group Financial Controller regularly attend meetings. The Committee also invites divisional leaders and specialists relevant to the Committee's agenda.

Main responsibilities

The terms of reference for the Committee are based on the Guidance on Audit Committees issued by the Financial Reporting Council. The main responsibilities of the Audit and Risk Committee are summarised below:

- review the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance
 - review the Group's internal controls established to identify, assess, manage and monitor risks, and receive reports from management on the effectiveness of the systems it has established and the conclusions of any testing performed by internal audit and the external auditor
 - monitor and review the effectiveness of the internal audit function, including its work programme
 - make recommendations to the Board in relation to the appointment of the external auditor and approve the remuneration and terms of engagement of the external auditor
 - assess the independence, objectivity and effectiveness of the external auditor and develop and implement policy on the engagement of the external auditor to supply non-audit services
 - review the integrity of the statement in the Annual Report on being fair, balanced and understandable, as required under the Companies Act 2006
 - review the procedures for the Group's helplines and other mechanisms used by employees to raise concerns confidentially (including any whistleblowing facilities) and their effectiveness.
- at the Board's request, whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy
 - the clarity of disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements and guidelines, including the European Securities and Markets Authority Guidelines on Alternative Performance Measures
 - discussing the critical accounting policies and use of assumptions and estimates (including key contract judgements), as noted on pages 126 and 127 of this Annual Report, and concluding that the estimates, judgements and assumptions used were reasonable based on the information available and had been used appropriately in applying the Group's accounting policies
 - assessing the Group's implementation of the new leasing standard, IFRS 16 Leases. In particular, the Committee focused on the robustness of the implementation project led by the Group team and the impact assessment of the new standard on the Group's results. The Committee also reviewed, assessed and endorsed the Group's proposed internal accounting policies to reflect the requirements of the new standard, which was adopted by the Group on 1 January 2019. Further detail on the impact of the adoption of IFRS 16 can be found on page 121.
 - reviewing the going concern and viability of the Group over the longer term as part of its assessment of the Group's risks (see pages 54 and 67).

Summary of activities in 2018

In 2018, the Committee's core work programme focused on a number of significant issues and other accounting judgements where the Committee believed the highest level of judgement was required and with the highest potential impact on the Group's financial statements. Further information is set out on page 83.

Financial reporting

The Committee reviewed and evaluated the appropriateness of the interim and annual financial statements (including the announcements thereof to the London Stock Exchange) with both management and the external auditor, including:

The Committee is able to question management at both Group and business unit levels to gain further insight into the issues addressed in these reports.

The key significant financial reporting issues and other accounting judgements are set out in the table on page 83.

Significant issues and other accounting judgements

Revenue and margin recognition	Given the nature of the Group's operations, these elements are central to how it values its work. Having reviewed detailed reports and met with management, the Committee considered contract and commercial issues with exposure to both revenue and margin recognition risks. As a key area of audit focus, the Committee also received a detailed written report from the external auditor setting out the results of its work in relation to key contract judgements.
Carrying value of goodwill and other intangibles	The judgement largely relates to the assumptions underlying the value in use of the cash-generating units, primarily the achievement of the three-year strategic plan and the macroeconomic assumptions (such as discount rates) underpinning the valuation process. The Committee received reports from management outlining the impairment model and the assumptions used; in addition, the external auditor provided detailed written reports in this area.
Going concern and viability statement	In order to satisfy itself that the Group has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties that could lead to significant doubt as to the Group's ability to continue as a going concern, the Committee considered the Group's viability statement, cash position (both existing and projected), bank facilities and covenants (including bonding lines) and the borrowing powers allowed under the Company's Articles of Association. The Committee subsequently recommended to the Board the adoption of the going concern statement and the viability statement for inclusion in the Annual Report. More details on going concern and the viability statement are contained on pages 54 and 67.
Non-underlying items	The key judgement is whether items relate to underlying trading or not and whether they have been presented in accordance with the Group's accounting policy. The Committee conducted a review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature.
Provisions	The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports, including relevant legal advice.
Retirement benefits	The key judgement relates to the assumptions underlying the valuation of the retirement benefit obligations. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.
Deferred tax assets	The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.
Directors' valuation of the Investments portfolio	The Committee assessed the methodology used to value the assets in terms of the discount rates applied. It also critically appraised the output of the Directors' valuation exercise.

Other matters

In addition to its key role in the financial reporting process, the Audit Committee also considered the following as well as developments in regulation:

Items discussed	Mar	May	Aug	Nov
Internal audit				
– biannual assessment of risk and internal control	•		•	
– approval of the Group's internal audit plan		•		•
– review of the effectiveness of internal audit	•	•	•	•
– review of findings from internal audit activities and updates	•	•	•	•
External audit				
– audit report on 2017 financial results	•			
– review report on 2018 interim results			•	
– approval and review of the proposed audit strategy plan and procedures			•	
– transition of lead audit partner		•		
– review of the provision of non-audit services provided by the external auditor (including fees)	•			
– review and assessment of the effectiveness of the planned audit strategy	•			
– review process and control issues identified during the audit and recommendations to management		•		•
Other matters				
– assessment of the Group's insurance strategy and programme		•		
– assessment of the robustness of the Group's procedures on Business Integrity and review of its findings		•		
– review and discuss the Group's update to the Committee on its ERP system standardisation			•	•
– review of the Group's management of its tax affairs including its approach to the new UK corporate criminal offence of failure to prevent tax evasion		•		•
– review regulatory and other third party correspondence			•	•
– assessment of Business Integrity's report on identification of fraud and deception				•
– annual review of the Committee's terms of reference				•

Audit and Risk Committee continued

FRC's Audit Quality Review

During the year, the FRC's Audit Quality Review team carried out a review of KPMG LLP's audit work for 2017. There were no findings in their report to the Committee and consequently no changes were made to the 2018 external audit process other than general process enhancements.

Areas of focus in 2019

In 2019, the Committee will continue to address the topics described on pages 82 and 83 including continuing to undertake reviews of the risk management and assurance practices across the Group on a rolling programme. The Committee will also continue to receive any necessary training in order to broaden and refresh the skills and knowledge of its members.

Risk management and internal control

The Board has ultimate responsibility for the Group's risk management systems and internal control.

The risk management and internal control framework now comprises a number of approval and review gates that cover the business lifecycle from initial project pursuit through to delivery and completion.

These processes are underpinned by common minimum standards in project and commercial management and are under constant review to ensure their effectiveness and compliance.

Internal auditor effectiveness

The Committee reviews the effectiveness of the internal audit function on an ongoing basis. This is achieved, in part, by reviewing and discussing the reports presented to it at each meeting, setting out the function's work and findings, but also through a formal annual assessment. An independent periodic review of the internal audit function, as well as a thorough self-assessment scorecard drawn up in accordance with best practice guidelines, also helps contribute to the Committee's evaluation.

External auditor independence and effectiveness

The Committee carries out a formal review each year to assess the independence and effectiveness of the external auditor, KPMG. The Committee has satisfied itself as to KPMG's independence. The Committee took into consideration the following matters:

Non-audit work

The objective set out in the Group's policy is to ensure that the external auditor is not placed in a position where its independence is, or might be seen to be, compromised. Under no circumstances will any assignment be given to the external auditor, if it results in:

- audits of its own work
- making management decisions on behalf of the Group
- acting as advocate for the Group
- a mutuality of interest being created.

The Group's policy identifies the various types of non-audit services and determines the analysis to be undertaken, and level of authority required, before the external auditor can be considered to undertake such services. For any non-audit services (which are not excluded under the policy), the policy provides for approval by the Chief Financial Officer of expenditure below £250,000, and approval by the chairman of the Audit and Risk Committee of expenditure above £250,000. A report is also submitted to the Committee of any non-audit services carried out by the external auditor, irrespective of value. The aggregated spend on non-audit services with the external auditor will not exceed 60% of the Group audit fee, unless exceptional circumstances exist, with a three-year rolling average not exceeding 70% of the Group audit fee.

During 2018, there were fees of £0.4 million (2017: £0.5 million) paid to the external auditor for non-audit services. 2018 non-audit services primarily related to the half-year review. Audit fees for 2018 were £2.6 million. Further details are included in Note 6.2 on page 134.

There is no inconsistency between the Financial Reporting Council's ethical standards and the Group's policy.

The Committee considers that the Group receives particular benefits, including those relating to cost, quality and consistency, from the advice provided by its external auditor, given its wide and detailed knowledge of the Group and its international operations. There can also be savings in management time and accelerated delivery of work in situations where rapid turnaround is required.

98% by value of non-audit related work provided by international accounting firms in 2018 was carried out by firms other than KPMG.

Annual assessment of the audit process

In addition to receiving written reports from the auditor (both internal and external) and management, the Committee also conducted separate private meetings with the external auditor and with management. These provide

the opportunity for open dialogue and feedback on the audit process, the responsiveness of management and the effectiveness of individual internal and external audit teams.

A detailed assessment of the external audit process, the effectiveness of the external auditor as well as KPMG's level of professional scepticism, together with any identified improvement recommendations, is prepared each year.

External auditor rotation

The Group undertook an external audit tendering process in 2015 and KPMG was selected as the Group's auditor for the year ended 31 December 2016, replacing Deloitte as the incumbent for the last 14 years.

Paul Sawdon is the lead partner on the audit for the year ended 31 December 2018. He replaced Stephen Wardell who retired as the lead partner on the audit after completing his second year for the year ended 31 December 2017.

The external auditor is required to rotate the lead partner every five years. Such changes are carefully planned to ensure business continuity without undue risk or inefficiency.

The EU Audit Directive on audit tendering took effect from June 2016 and its key aspects include:

- audit firms will have a maximum tenure of 10 years, although the UK Government proposes to allow an extension of (i) up to an additional 10 years where a public tender is carried out after 10 years; or (ii) by an additional 14 years where more than one audit firm is appointed to carry out the audit
- audit firms are to be prohibited from providing certain non-audit services and where non-audit services are provided they will be subject to a fees cap
- a restriction in any contract limiting a group's choice of auditor will be prohibited.

The Group has therefore adopted a policy that no external auditor appointed after June 2016 can remain in post for longer than 20 years and there will be a tendering process every 10 years, and that KPMG, as the currently appointed external auditor, may remain so until the completion of the 2025 annual audit. However, the Committee will continue to consider annually the need to tender the audit for audit quality or independence reasons. There are no contractual obligations in place that restrict the Group's choice of statutory auditor.

The disclosures provided above constitute the Company's statement of compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Directors' report – other disclosures

Directors' report

The Directors of Balfour Beatty plc present their report, together with the audited accounts for the year ended 31 December 2018.

For the purpose of the Financial Reporting Council's Disclosure Guidance and Transparency Rule (DTR) 4.1.8R, the Directors' report is also the Management report for the year ended 31 December 2018.

As permitted by Section 414 C(11) of the Companies Act 2006, some matters required to be included in the Directors' report have instead been included in the Strategic report. These disclosures are incorporated by reference in the Directors' report. The Strategic report can be found on pages 1 to 67.

Corporate governance

The Governance section on pages 68 to 103, including the Compliance with the Code statement on page 69, forms part of the Directors' report.

Directors and their interests

The Directors who served during the year and were Directors at 31 December 2018 were Philip Aiken, Leo Quinn, Philip Harrison, Iain Ferguson, Stephen Billingham, Stuart Doughty, Michael Lucki, Barbara Moorhouse and Anne Drinkwater. Further details and individual biographies are set out on page 71.

The interests of the Directors and their connected persons in the Company's shares, (as notifiable to the Company under Article 19 of the Market Abuse Regulation) are set out on page 100. In the period between 31 December 2018 and the date of this report there has been no change in the interests of Directors or their connected persons save for the increase of 109 ordinary shares held in the Share Incentive Plan for Leo Quinn.

At no time during 2018 did any of the Directors have a material interest in any contract with the Company or any of its subsidiaries.

Directors' indemnities and insurance

The Company maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against its directors.

Qualifying third party indemnity provisions were in force during 2018 and as at the date of this report for the benefit of certain employees who were directors of a subsidiary company.

Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the year ended 31 December 2018 for the benefit of the trustee directors of the Balfour Beatty Pension Scheme.

All provisions related to indemnities and insurance are reviewed annually.

Articles of association

The Company has not adopted any special rules regarding the appointment and replacement of Directors or the amendment of the Articles of Association, other than as provided under UK company law.

Share capital

Details of the share capital of the Company as at 31 December 2018, including the rights attaching to each class of shares, are set out in Note 29 on page 167. During the year ended 31 December 2018, no ordinary or preference shares were issued or repurchased for cancellation.

At 31 December 2018, the Directors had authority under shareholder resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2018 to purchase through the market 68,973,961 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the earlier of the conclusion of the Class Meeting of preference shareholders which will follow the 2019 AGM or on 1 July 2018 (except in relation to the purchase of shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).

Throughout the year, all the Company's issued share capital was publicly listed on the London Stock Exchange and it remains so as at the date of this report. There are no specific restrictions on the size of a shareholding nor on the transfer of shares which are both governed by the Articles of Association and the prevailing law. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

No person has special rights of control over the Company's share capital and all issued shares are fully paid.

Shares held by the Balfour Beatty Employee Share Ownership Trust rank *pari passu* with the ordinary shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to the shares held in this trust rest with the trustees, who may take account of any recommendation from the Company. Voting rights are not exercisable by the employees on whose behalf the shares are held in trust.

Details of shares purchased by the Balfour Beatty Share Ownership Trust in relation to the Company's share schemes can be found in Note 30.3 on page 170. All shares purchased were ordinary 50p shares. The percentage of called-up share capital represented by the shares purchased in 2018 was 0.22%.

Major shareholders' interests

Notifications provided to the Company by major shareholders in accordance with the DTR are published via a Regulatory Information Service and on the Company's website. Pursuant to DTR 5, the Company has been notified of the following interests in voting rights in its shares as at 31 December 2018 and as at the date of this report:

	Percentage of voting rights (%) as at 31 December 2018	Percentage of voting rights (%) as at 4 March 2019
Causeway Capital Management LLC	11.79	12.19
M&G Investment Management	6.39	6.37
BlackRock Inc	6.46	6.23
UBS Asset Management	5.51	5.52
UBS collateral account	4.76	4.45
Invesco Limited	3.74	3.61
Pzena Investment Management	3.42	3.42
Vanguard Group	3.30	3.38

Dividends

An interim dividend of 1.6p per ordinary share was approved by the Board on 14 August 2018 and a final dividend of 3.2p per ordinary share will be recommended at the Annual General Meeting, giving a total dividend per ordinary share of 4.8p for 2018 (2017: 3.6p). Preference dividends totalling 10.75p per preference share were paid in 2018 (2017: 10.75p).

The Directors continued to offer the dividend reinvestment plan, which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service.

Branches

As the Group is an international business, there are activities operated through branches in certain jurisdictions.

Auditor

KPMG LLP has indicated its willingness to continue as auditor to the Company and a resolution for its re-appointment will be proposed at the 2019 AGM.

Directors' report – other disclosures continued

Innovation, future development and research and development

Information concerning innovation, future development and research and development is set out on pages 30 to 32, and forms part of the Directors' report disclosures.

Policies

The Group's published policies on health and safety, sustainability, sustainable procurement, modern slavery, social value, environment, business conduct and ethics remain in place and can be accessed on its website (<https://www.balfourbeatty.com/how-we-work/our-code-of-conduct/policies/>)

Sustainability

A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 30 to 43.

Greenhouse gas emissions

Details of Balfour Beatty's Scope 1 and 2 greenhouse gas emissions during the year and the actions which the Group is taking to reduce them are set out on pages 39 and 40 and form part of the Directors' report disclosures.

Employment

The Balfour Beatty Group operates across a number of geographies and end markets.

Balfour Beatty provides a Human Resources framework for promoting diversity, ethical behaviour and learning and development as well as continuing to fulfil its commitments in relation to regulation and corporate governance. The key principles in the design and practice of employment policy that are applicable across the Group are to:

- provide a safe, open, inclusive and challenging environment that attracts and retains the best people
- enable two way communication, using various formal and informal communication and consultation methods including engagement surveys, employee broadcasts, themed roadshows and localised 'all-hands' calls
- enable all employees to perform at their best and realise their full potential, assisted by appropriate training and career development
- communicate the strategy of the Group, the objectives of each respective business and the role and objectives of each employee within that business
- actively consult with all employees and engage in a participating environment that fosters the exchange of best practice and collaboration

- provide market competitive pay and benefits that reward both individual and collective performance
- ensure that all job applicants receive fair treatment, regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief
- ensure that all employees similarly receive fair treatment throughout their career
- provide a working environment of respect and free from harassment.

The Group provides fair and flexible employment policies and practices that respond to the different needs of its people. Information concerning employee diversity is set out on page 35 and forms part of the Directors' report disclosures.

Balfour Beatty strives to provide employment, training and development opportunities for disabled people wherever possible and is committed to supporting employees who become disabled during employment and helping disabled employees make the best use of their skills and potential, consistent with all other employees.

The Company operates an all employee share incentive plan (SIP) which enables UK-based employees to acquire the Company's ordinary shares on a potentially tax-favourable basis, in order to encourage employee share ownership and provide additional alignment between the interests of employees and shareholders. Participants in the SIP are the beneficial owners of shares but not the registered owners, and the voting rights to such shares are exercised by the trustee of the SIP at the discretion of the participants.

Information concerning financial and economic factors affecting the performance of the Group and the Company's share price is available to all employees via the Company's intranet site.

Events after the reporting date

As at 12 March 2019, there were no material post balance sheet events arising after the reporting date.

Political donations

At the AGM held in May 2018, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000 in the European Union. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2019 AGM.

In the US and Canada, corporate political contributions totalling US\$203,000 (£152,300) were made by business units during 2018 (2017: US\$26,100 (£19,306)). The increase in donations made in 2018 is largely due to payments made by the business unit based in California (over 80% of the total payments made) to support voter approval for the issuance of school bonds. 2018 was an election year in California and the bond measures, which voters must approve, are generally timed to coincide with the election cycle.

Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's policies on probity set out in its Code of Conduct.

Capitalised interest

Details of the Group's capitalised interest can be found in Notes 15 and 17 on pages 143 and 145 respectively.

Financial instruments

The Group's financial risk management objectives and policies (including its hedging policy) and its exposure to the following risks – liquidity, foreign currency, interest rate, price and credit – are detailed in Note 38 on pages 178 to 182.

Change of control provisions

The Group's bank facility agreements contain provisions that, on 30 days' notice being given to the Group, the lender may exercise its discretion to require prepayment of any loans on a change of control of the Company and cancel all commitments under the agreement concerned.

A number of significant joint venture and contract bond agreements include provisions which become exercisable by a counterparty on a change of control of the Company. These include the right of a counterparty to request additional security and to terminate an agreement.

The Group's US private placement arrangements require the Company, promptly upon becoming aware that a change of control of the Company has occurred (and in any event within 10 business days), to give written notice of such fact to all holders of the notes and make an offer to prepay the entire unpaid principal amount of the notes, together with accrued interest.

Some other commercial agreements, entered into in the normal course of business, include change of control provisions.

The Group's share and incentive plans include usual provisions relating to change of control, as do the terms of the Company's cumulative convertible redeemable preference shares.

There are no agreements providing for compensation for the Directors or employees on a change of control.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report (including this Directors' report) and the Group and Company financial statements in accordance with applicable law and regulations. As set out above, the Directors are Philip Aiken, Leo Quinn, Philip Harrison, Iain Ferguson, Barbara Moorhouse, Stephen Billingham, Stuart Doughty, Michael Lucki and Anne Drinkwater.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant, reliable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements
- assess the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, Directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In light of the work undertaken by the Audit and Risk Committee reported in greater detail on pages 82 to 84 and the internal verification and approval process which has been followed, the Directors are able to state that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Statements of Directors as to disclosure of information to auditors

Each of the Directors at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- the Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Jonathan Lagan

Group General Counsel
and Company Secretary

12 March 2019

Registered Office:
5 Churchill Place, Canary Wharf
London E14 5HU

Registered in England and Wales,
registered number 395826

Remuneration report

Chairman of the Remuneration Committee's introduction



We believe that the remuneration policy continues to deliver a robust link between reward and performance."

Iain Ferguson

Chairman of the Remuneration Committee

Dear Shareholders,

As Chairman of the Remuneration Committee I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2018.

Shareholders approved the Remuneration Policy at the AGM in 2017 and, in keeping with the more concise reporting adopted last year, the policy is not presented in this report but can be found at https://balfourbeatty.com/remuneration_policy.

In line with regulatory requirements the policy is next subject to a vote at the 2020 AGM. Ahead of this, the Committee will be conducting a full policy review during 2019. Details of the approved remuneration policy in action during the year, the Committee's considerations and the intended arrangements for 2019 are set out on the following pages.

Context

Our remuneration policy's primary objective is to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance aligned to the strategic plan and to the interests of shareholders. As referenced earlier in this Annual Report, the Group continues to make significant progress through the Build to Last transformation programme.

This report highlights the remuneration decisions made by the Committee over the course of the year. The deliberations of the Committee are made against the backdrop of strong progress against the Build to Last goals, the markets in which the Group operates, the wider general economy and developing corporate governance and shareholder views.

As you will see, the Committee's decisions recognised the continuing scale of change brought by Leo Quinn, Group Chief Executive, and Philip Harrison, Chief Financial Officer, and I hope that you will show your support by voting in favour of this report at the 2019 AGM.

Remuneration alignment to strategy

The Committee considered in detail the performance measures and targets for the Annual Incentive Plan and Performance Share Plan awards in 2018 to ensure they remain appropriate and support the Group's ongoing and future strategy.

The Committee will continue to review the pay structures and incentive arrangements in 2019. This will be informed by the Group's performance, the future focus of Build to Last and the 2019 policy review.

Key decisions made in 2018

Following the publication of the 2018 UK Corporate Governance Code (the 2018 Code), the Committee reviewed the Company's current executive Directors' remuneration policy and its operation. It concluded that, for PSP awards made in 2019 and thereafter, a post-vesting holding period will apply to awards granted to executive Directors, requiring them to retain shares (net of tax) vesting under the PSP for two years. This will mean that there will be a minimum period of five years between grant of PSP awards and sale of the shares.

Additionally, the Committee's Terms of Reference are being reviewed to ensure they are compliant with the 2018 Code. Going forward the Committee will be responsible for reviewing and approving the remuneration for both the executive Directors and members of the Executive Committee.

In respect of the proposal to require companies to report the pay ratio between the CEO and average of the UK workforce, we are currently reviewing calculations with a view to publication in our 2019 report.

The Committee additionally considered other items, including post-employment shareholding guidelines, Committee discretions, executive Director pensions' alignment with the wider workforce and clawback and malus clauses. It concluded that these will be reviewed fully during 2019 as part of the wider policy review.

Reward for 2018

In respect of 2018, the annual bonus payments for the executive Directors reflect the strong performance of the Group – the maximum profit target was met, the cash target was met in part and the personal performance of both executive Directors was strong. Leo Quinn and Philip Harrison both received annual bonus payments of 69.06% of the maximum available respectively, of which 50% will be deferred in shares for three years.

The TSR performance conditions relating to the 2016 PSP awards measured performance over the three years ended 31 December 2018 for all participants. TSR performance conditions were not met, the maximum net cash/(debt) target was met and EPS targets were met in part. As a result, 64.17% of these awards will vest for Leo Quinn and Philip Harrison on 13 April 2019.

Salaries are normally reviewed on 1 July, and it was agreed that the executive Directors would not receive a salary increase for 2018, with salaries remaining at the level agreed upon their appointment in 2015. Their next salary review date is 1 July 2019.

Remuneration policy for 2019

The Committee will continue to operate within the remuneration policy approved by shareholders in 2017. The key highlights of how we intend to apply this for 2019 are:

- the annual bonus will be based on profit before tax 40%, cash 35% and strategic business and personal objectives 25%
- the Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary
- consistent with awards made previously, PSP awards will continue to be based on the achievement of three performance metrics split equally between relative TSR, EPS and cash, with any shares vesting subject to a further two-year holding period.

Areas for focus in 2019

The current remuneration policy was approved by shareholders at the 2017 AGM. In advance of the 2020 AGM policy vote, the Committee will be conducting a full review during 2019 to ensure that the policy remains effective and aligned to the Group's strategic objectives. As part of the review the Committee will consider continuing developments in external corporate governance and best practice.

Remuneration of the wider workforce

The Committee receives regular updates on pay and benefits for the wider workforce and takes these developments into account when reviewing executive pay and benefits.

The Committee will be reviewing calculations of the pay ratio between the CEO and average of the workforce. The UK gender pay gap reporting has also been reviewed by the Committee during the year.

Shareholder engagement

Although no changes to the remuneration policy have been proposed over the last year, we did engage with major shareholders to discuss their priorities over remuneration matters. The Committee is made fully aware of any areas of concern when raised.

As our policy will be put to a binding vote at the 2020 AGM, the Committee will be conducting a full policy review over the course of 2019 and we will consult with major shareholders to ensure that their views are considered during the process.

Conclusion

We believe that the remuneration policy continues to deliver a robust link between reward and performance, that it is implemented rigorously in line with its stated objectives and is aligned with the Group's strategic goals. We hope you will support our remuneration report at this year's AGM.

I will be retiring from the Board after the 2019 AGM and Anne Drinkwater will then be appointed chair of the Committee. I wish her well in this role.

Iain Ferguson

Chair of the Remuneration Committee

Remuneration outcomes at a glance

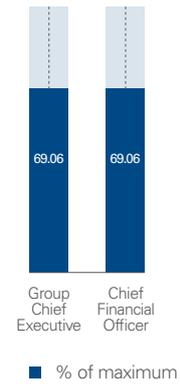
Outcomes of awards in year

AIP metrics and outcome



* Group total cash flow is the movement between opening and closing total net cash/(debt).

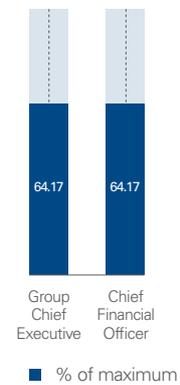
AIP out-turn % of maximum



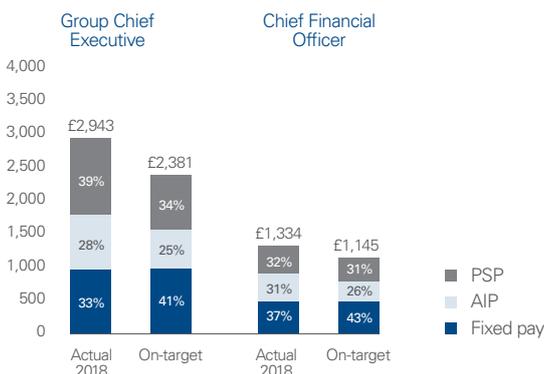
PSP metrics and outcome



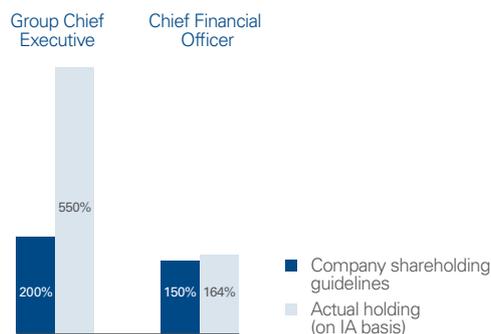
PSP out-turn % of maximum



Executive Director remuneration scenarios (£000)



Executive Directors' shareholding guidelines (% of base salary held)



Calculations shown include shares beneficially owned at 31 December 2018 plus unvested shares, which are not subject to a further performance condition, on a net of tax basis.

Annual report on remuneration

This part of the Remuneration report sets out how the remuneration policy will be applied over the year ending 31 December 2019 and how it was implemented over the year ended 31 December 2018. Details of the remuneration earned by Directors and the outcomes of incentive schemes, including details of relevant links to Company performance, are also provided in this part.

The detailed information about the Directors' remuneration, set out on pages 91 to 103 (excluding the performance graph on page 101), has been audited by the Company's independent auditor, KPMG LLP.

The areas covered in this Annual Report on Remuneration comprise:

Implementation of the remuneration policy for the year ending 31 December 2019	91
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Implementation of the remuneration policy for the year ending 31 December 2019

Base salaries

The Committee reviewed the base salary of the executive Directors at the normal review date of 1 July 2018. It took into consideration salary levels, time in role and the salary increase provided to the Group's UK general workforce, averaging 2.77%. It concluded that current salary levels remained appropriate. Neither executive Director has received a base salary increase since being appointed in 2015.

The next base salary review date is 1 July 2019.

	Date of appointment	Salary on appointment £	1 July 2017 £	1 July 2018 £	% increase
Leo Quinn	Jan 2015	800,000	800,000	800,000	0.0%
Philip Harrison	Jun 2015	400,000	400,000	400,000	0.0%

Pension

In line with stated policy, executive Directors receive a pension cash allowance equivalent to 20% of base salary.

Performance targets for the Annual Incentive Plan (AIP) in 2019

For 2019, the AIP for the executive Directors will be a maximum bonus of 150% of base salary, based on the achievement of three performance measures:

- profit before tax (40%)
- cash (35%)
- strategic business and personal objectives (25%).

The three elements are measured and calculated independently of each other and 50% of any bonus earned will be deferred for three years in Balfour Beatty shares.

While the Committee has chosen not to disclose in advance the performance targets for 2019 as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in the Remuneration report for 2019.

Annual report on remuneration continued

Performance targets for Performance Share Plan (PSP) awards granted in 2019

For 2019, and consistent with 2018, the Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary. The PSP awards to be granted in 2019 will be based on the achievement of three performance measures:

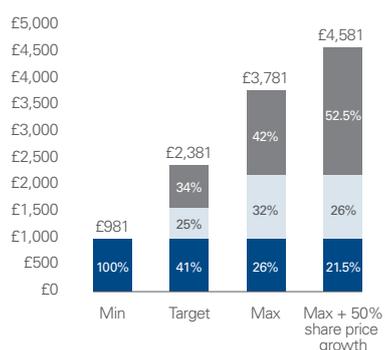
- relative TSR (33.3%) – the Company's TSR measured against a comparator group of UK listed companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2019, the start of the performance period. There is no vesting for ranking below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher
- EPS (33.3%) – the Group's EPS over the three-year performance period
- cash (33.3%) – cash remains critical as a long-term performance measure.

As at the date of publication of this Remuneration report, the Committee had not finalised the EPS and cash performance targets for the PSP awards to be granted in 2019. The EPS and cash targets will be set at an appropriate level of stretch and will be fully disclosed in the RNS announcement issued immediately following the grant of the PSP award and in the Remuneration report for 2019.

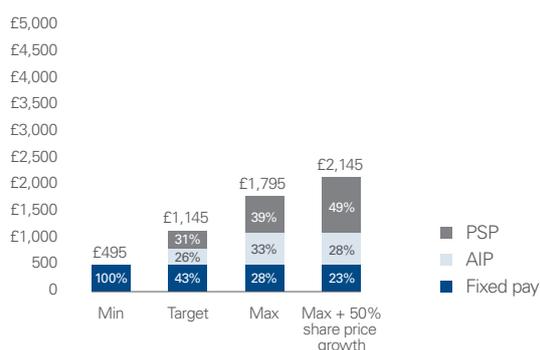
Executive Director remuneration scenarios

A significant proportion of remuneration is linked to performance, particularly at maximum performance levels. The charts below show how much the Group Chief Executive and Chief Financial Officer could earn in future periods based on different performance scenarios in respect of awards to be made in the 2019 financial year under Balfour Beatty's remuneration policy.

Leo Quinn – Group Chief Executive (£000)



Philip Harrison – Chief Financial Officer (£000)



The following assumptions have been made:

- Minimum (performance below threshold) – Fixed pay only with no vesting under any of Balfour Beatty's incentive plans
- Target – Fixed pay plus a bonus (AIP) at the mid-point of the range (giving 50% of the maximum opportunity) and vesting of 50% of the face value of the award at grant under the PSP
- Maximum (performance meets or exceeds maximum) – Fixed pay plus 100% of the bonus (AIP) opportunity and 100% of the face value of the award at grant under the PSP
- Maximum + 50% share price growth (performance meets or exceeds maximum and potential 50% increase in share price) – Fixed pay plus maximum bonus (AIP) and maximum vesting under the PSP at a 50% higher share price than when the PSP award was granted.

Fixed pay comprises:

- Salaries – base salary effective as at 1 July 2018
- Benefits – amount received in the 2018 financial year
- Pension – cash allowance in lieu of pension is 20% of base salary.

Non-executive Directors

The Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar companies and reflects the time commitment and responsibilities of each role. At the annual review of fees for both the non-executive Chairman and Directors on 1 July 2018, fees were increased as set out below. The Chairman's fee had not previously been increased since he joined the Board as Chairman on 26 March 2015.

	1 July 2017 £	1 July 2018 £	% increase
Chairman	270,000	277,000	2.6%
Base fee	60,000	61,500	2.5%
Senior Independent Director fee	10,000	10,000	0%
Committee chair fee	12,500	12,500	0%

For non-executive Directors based outside Europe, the travel allowance for each overseas visit made on Company business remains at £2,500.

Where the Chairman is also the chair of a Committee, he or she receives no committee chair fee. The Senior Independent Director fee is only payable if he or she is not the chair of a Committee.

Remuneration received by Directors for the year ended 31 December 2018

The table below sets out the Directors' remuneration for the year ended 31 December 2018 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2017.

	Year	Base salary and fees ^{1,2} £	Taxable benefits ^{3,4} £	Pension cash allowance £	Annual incentive cash ⁵ £	Annual incentive deferred shares ⁵ £	Long-term incentives ^{6,9} £	Other ⁷ £	Total ⁹ £
Executive Directors									
Philip Harrison	2018	400,000	14,503	80,000	207,180	207,180	424,926	–	1,333,789
	2017	400,000	14,503	80,000	288,000	288,000	716,454	74,461	1,861,418
Leo Quinn	2018	800,000	21,006	160,000	414,360	414,360	1,133,141	1,398,613	4,341,480
	2017	800,000	21,006	160,000	582,000	582,000	1,979,098	1,171,881	5,295,985
Non-executive Directors									
Philip Aiken	2018	273,500	–	–	–	–	–	–	273,500
	2017	270,000	34	–	–	–	–	–	270,034
Stephen Billingham	2018	73,250	–	–	–	–	–	–	73,250
	2017	69,250	–	–	–	–	–	–	69,250
Stuart Doughty	2018	73,250	–	–	–	–	–	–	73,250
	2017	64,250	–	–	–	–	–	–	64,250
Anne Drinkwater ⁸	2018	5,125	–	–	–	–	–	–	5,125
Iain Ferguson	2018	73,250	–	–	–	–	–	–	73,250
	2017	69,250	–	–	–	–	–	–	69,250
Michael Lucki	2018	60,750	7,500	–	–	–	–	–	68,250
	2017	30,000	5,000	–	–	–	–	–	35,000
Barbara Moorhouse	2018	60,750	–	–	–	–	–	–	60,750
	2017	34,667	–	–	–	–	–	–	34,667

1 Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors.

2 In practice, the base salary paid to Leo Quinn was reduced due to his participation in the Company's Share Incentive Plan. The salary reduction in 2018 was £1,800.

3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn received private medical insurance for himself and his spouse and received a car allowance of £20,000 per annum. Philip Harrison received private medical insurance for himself only and received a car allowance of £14,000 per annum.

4 Philip Aiken and Michael Lucki received taxable travel expenses and/or travel allowances which are shown in the taxable benefits column.

5 AIP 2018: further details of these awards are set out on pages 94 to 96. For 2017, details of the AIP awards were set out in the 2017 Remuneration Report.

6 For 2018, this relates to the 2016 PSP award for which the performance period ended in 2018, with the valuation of vesting shares calculated on a 3-month average share price to 31 December 2018 of 259.8p. Further details of the 2016 PSP awards are set out on page 97. For 2017, this relates to the 2015 PSP award for which the performance period ended in 2017, details of which were set out in the 2017 Remuneration Report. For 2017, the valuation of vesting shares for the 2015 PSP has been adjusted from the valuation included in the 2017 Remuneration Report to reflect the actual valuation on the 26 June 2018 vesting date, based on a share price of 283.0p. Under the rules of the PSP scheme, the participants may also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period on vested shares.

7 Other payments relate to the conditional share awards granted to Philip Harrison and Leo Quinn to compensate them for share awards which were forfeited upon leaving their respective former employers. For 2018, Leo Quinn's award is the second tranche for which the performance period ended 2 January 2018 with the valuation of the 492,589 shares vesting calculated on the share price of 283.931p at the vesting date on 14 March 2018. For 2017, Leo Quinn's award is the first tranche for which the performance period ended 2 January 2017 with the valuation of the 423,704 shares vesting calculated on the share price of 276.58p at the vesting date on 16 March 2017. For 2017, Philip Harrison's award is the second tranche for which the performance period ended 31 December 2017 with the valuation of the 25,071 shares vesting calculated on the closing share price of 297p at 31 December 2017. Further details of these awards are set out on page 99.

8 Anne Drinkwater joined the Board effective 1 December 2018.

9 Total figures and long-term incentives figures for 2017 have been adjusted from the figures included in the 2017 Remuneration Report to reflect the actual valuation on the 26 June 2018 vesting date of shares vesting under the PSP 2015.

Annual report on remuneration continued

AIP awards for the year ended 31 December 2018

For 2018, the AIP for the executive Directors was a maximum bonus of 150% of base salary based on the achievement of three performance measures:

- profit before tax (40%)
- cash (35%)
- strategic business and personal objectives (25%).

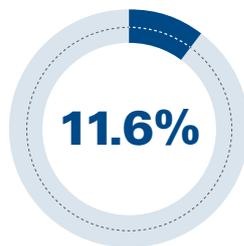
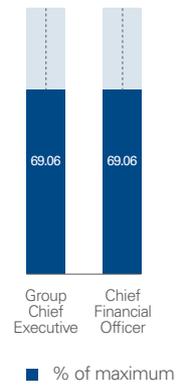
The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares. For the profit before tax element, 20% of the award would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above. For the Group total cash flow element, 5% of that element would vest for threshold performance, increasing to 50% vesting of that element at target performance and then to 100% of that element at maximum performance or above.

AIP metrics and outcome



* Group total cash flow is the movement between opening and closing total net cash/(debt).

AIP out-turn %



	Group Chief Executive	Chief Financial Officer
Lean	Met in full	Met in full
Expert	Met in full	Met in full
Trusted	Met in full	Met in full
Safe	Met in full	Met in full

Performance against the 2018 AIP strategic business and personal objectives as it relates to the executive Directors was:

Summary of key strategic objectives	Examples of achievement	Group Chief Executive	
		Weight %	Out-turn %
<p>Lean: Deliver Phase 2 of Build to Last (industry-standard margins by end 2018) including:</p> <ul style="list-style-type: none"> – continued overhead cost out across the Group (target £19m) – Cash is our Compass – deliver higher average net cash vs. 2017 	<p>Achieved in full, including:</p> <ul style="list-style-type: none"> – actual overhead reduction of £37m achieved – average net cash of £194m achieved in 2018 vs. £42m in 2017 	16	16
<p>Expert: Continue to upgrade senior leadership team including:</p> <ul style="list-style-type: none"> – strengthen US leadership team – continue to improve employee engagement as measured by pulse surveys 	<p>Achieved in full, including:</p> <ul style="list-style-type: none"> – new CEOs for US Buildings and US Civils appointed and performing well – employee engagement index increased from 60% in November 2017 to 65% in December 2018 	56	56
<p>Trusted: Position organisation with robust capabilities to deliver profitable growth, particularly from future 'mega projects' by:</p> <ul style="list-style-type: none"> – driving cash to further strengthen balance sheet by paying down convertible bonds whilst positioning balance sheet to redeem convertible preference shares in 2020 – ensuring disciplines and processes are thoroughly embedded and applied as management tools to reduce project risk and safeguard reputation – continue to roll out J D Edwards(US) and Oracle R12(UK), and develop data analytics to support transparency of project performance across both UK and US organisations 	<p>Achieved in full, including:</p> <ul style="list-style-type: none"> – convertible bonds fully repaid in December 2018 – governance around work winning and project controls has continued to improve and is embedded into normal management process – systems strategy being implemented to plan in both the UK and US 	20	20
<p>Safe: Continue to progress improvements made in safety performance in UK and US LTIR. 10% improvement required</p>	<p>Achieved in full, including:</p> <ul style="list-style-type: none"> – LTIR improved from 0.17 in 2017 to 0.15 in 2018. Improvement greater than 10% 	8	8
Total		100	100

Annual report on remuneration continued

Summary of key strategic objectives	Examples of achievement	Chief Financial Officer	
		Weight %	Out-turn %
Lean: Lead financial transformation to deliver 2018 cost budget together with a strategy to achieve 2019 target: <ul style="list-style-type: none"> – upgrade management reporting ‘project on a page’ to enhance efficiency and effectiveness – implement the Support Services Oracle R12 implementation and establish project plan for remaining businesses in 2019 – target further overhead cost reduction of minimum £19m – deliver higher average net cash in 2018 vs. 2017 	Achieved in full, including: <ul style="list-style-type: none"> – significantly enhanced reporting and control framework – successful migration to plan and budget in 2018; plans in place for all future migrations – actual overhead reduction of £37m achieved – average net cash of £194m achieved in 2018 vs. £42m in 2017 	28	28
Expert: Build high-calibre finance function in UK and US, with succession options, including: <ul style="list-style-type: none"> – appoint new finance leadership in US Buildings – develop central finance hub supporting US business 	Achieved in full, including: <ul style="list-style-type: none"> – successful appointment of new CFO for US Buildings and Investments – implementation successful and to plan 	24	24
Trusted: Deliver agreed capital structure plan for Group, including: <ul style="list-style-type: none"> – pay down convertible bonds and private placement notes when due – successfully realise cash budget targets for Infrastructure Investments – negotiate reduction in US surety programme letters of credit 	Achieved in full, including: <ul style="list-style-type: none"> – convertible bonds and private placement notes fully repaid on time – achieved £184m – achieved US\$84m reduction 	40	40
Safe: Continue to support and role model improvement in safety culture and performance	Achieved in full, including: <ul style="list-style-type: none"> – demonstrated strong leadership including safety tours. LTIR improved from 0.17 in 2017 to 0.15 in 2018 	8	8
Total		100	100

The Committee considered carefully the AIP performance out-turn for the executive Directors against the background of the profit performance and determined that the above payments are appropriate given the Group’s strong financial performance and the personal performance of the executive Directors. The executive Directors have, in the opinion of the Committee, continued to make significant improvements to the business through Build to Last to deliver the Group’s goals.

Vesting of PSP awards for the year under review

The PSP awards granted on 13 April 2016 were based on a performance period for the three years ended 31 December 2018.

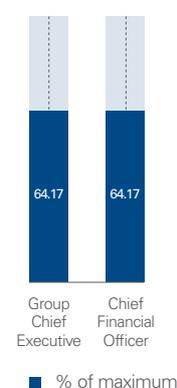
The performance conditions applying to one-third of each award were comparative total shareholder return measured versus the companies ranked 51-150 by market capitalisation in the FTSE All Share Index (excluding investment trusts), cash performance measured by reference to total net cash/(debt) and earnings per share. 25% of each of the total shareholder return and earnings per share parts of the award would vest for threshold performance increasing to 100% of each part of the award vesting for maximum performance or above. For the net cash/(debt) part, 25% of that part would vest for threshold performance increasing to 50% vesting of that part at target performance and then to 100% of that part at maximum performance or above.

Details of the PSP awards vesting for the year under review are therefore as follows:

PSP metrics and outcome

Total shareholder return	Total net cash/(debt)	Earnings per share
<u>Targets</u>	<u>Targets</u>	<u>Targets</u>
Threshold: Median Maximum: Upper quartile	Threshold: £(75)m Target: £0m Maximum: £50m	Threshold: 20p Maximum: 27p
<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
Below median	£337m	26.3p
0%	100% (of maximum)	92.5% (of maximum)

PSP out-turn % of maximum



Metric	Performance condition	Measure	Threshold target	Maximum target	Actual	Vesting %
Total shareholder return	TSR against the 85 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts)	TSR ranking	43 or above	21.75 or above	49.2	0%
Cash		Total net cash/(debt)	£(75)m	£50m	£337m	100%
Earnings per share		Underlying basic earnings per share from continuing operations	20p	27p	26.3p	92.5%
Total vesting						64.17%

Name of Director	Type of award	Vesting date	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of vesting shares ¹
Philip Harrison	2016 conditional	13 April 2019	254,885	163,559	91,326	£424,926
Leo Quinn	2016 conditional	13 April 2019	679,694	436,159	243,535	£1,133,141

¹ Valuation of vesting shares calculated on a 3-month average share price to 31 December 2018 of 259.8p.

Annual report on remuneration continued

Outstanding share awards

Name of Director	Share award	Date granted	Maximum number of shares subject to award				At 31 December 2018	Exercisable and/or vesting from
			At 1 January 2018	Awarded during the year	Vested during the year	Lapsed during the year		
Philip Harrison	PSP ¹	26 June 2015	295,857	–	253,164	42,693	–	26 June 2018
	PSP ^{2,5,6}	13 April 2016	254,885	–	–	–	254,885	13 April 2019
	PSP ^{3,5,6}	7 June 2017	253,347	–	–	–	253,347	7 June 2020
	PSP ^{4,5,6,7}	27 March 2018	–	259,163	–	–	259,163	27 March 2021
	DBP ^{8,9,11,13}	31 March 2016	26,428	379	–	–	26,807	31 March 2019
	DBP ^{8,9,11,13}	31 March 2017	42,880	615	–	–	43,495	31 March 2020
	DBP ^{8,9,11,12,13}	3 April 2018	–	108,320	–	–	108,320	3 April 2021
	Share buyout ¹⁴	11 June 2015	61,662	–	25,071	36,591	–	31 December 2017
Leo Quinn	PSP ¹	26 June 2015	788,954	–	699,328	89,626	–	26 June 2018
	PSP ^{2,5,6}	13 April 2016	679,694	–	–	–	679,694	13 April 2019
	PSP ^{3,5,6}	7 June 2017	579,080	–	–	–	579,080	7 June 2020
	PSP ^{4,5,6,7}	27 March 2018	–	592,373	–	–	592,373	27 March 2021
	DBP ^{8,10,11,13}	26 June 2015	196,027	1,635	197,662	–	–	26 June 2018
	DBP ^{8,9,11,13}	31 March 2016	90,616	1,302	–	–	91,918	31 March 2019
	DBP ^{8,9,11,13}	31 March 2017	86,527	1,244	–	–	87,771	31 March 2020
	DBP ^{8,9,11,12,13}	3 April 2018	–	218,896	–	–	218,896	3 April 2021
Share buyout ¹⁴	2 January 2015	1,208,511	–	492,589	715,922	–	2 January 2018	

- 1 2015 PSP award: This award vested in part on 26 June 2018. Details of the Company's performance against the performance conditions were set out in the 2017 Remuneration Report. Philip Harrison and Leo Quinn also received 5,741 and 15,864 shares respectively in lieu of the dividends which would have been payable on the shares which vested. The closing middle market price of ordinary shares on the vesting date was 283.0p.
- 2 2016 PSP award: Further details of this award are set out on page 97.
- 3 2017 PSP award: This award is subject to three performance targets over a three-year performance period commencing 1 January 2017. TSR part (33.3% weighting), measured against a comparator group of companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts), no vesting below median ranking, 25% vesting of this part at median, rising to 100% vesting at upper quartile performance or better. No portion of the Cash Part (33.3%) will vest unless the 2019 year end Operating Cash Flow (OCF) is greater than £132 million. 25% to 50% will vest for OCF between £132 million and £164 million, rising to full vesting for OCF of £200 million or more. EPS part (33.3%), no vesting unless 2019 EPS is 19p, 25% vesting of this part at 19p, rising to full vesting at 29p or more.
- 4 2018 PSP award: Details are set out on page 99.
- 5 The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of shares granted, was 235.4p for the 2016 award, 276.3p for the 2017 award and 270.167p for the 2018 award. The closing middle market price of ordinary shares on the date of the awards was 238.3p, 271.0p and 273.0p respectively.
- 6 All PSP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
- 7 On 27 March 2018, for all participants in the PSP, a maximum of 3,393,943 conditional shares were awarded which are exercisable on 27 March 2021.
- 8 All DBP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
- 9 The initial DBP awards made in March 2016, March 2017 and April 2018 will vest on 31 March 2019, 31 March 2020 and 3 April 2021 respectively, providing the participant is still employed by the Group at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).
- 10 The initial DBP awards made in March 2015 and June 2015 vested on 31 March 2018 and 26 June 2018 respectively. The closing middle market price of ordinary shares in the Company on the vesting dates was 267.6p and 283.0p respectively.
- 11 The shares subject to the DBP awards made on 31 March 2015, 26 June 2015, 31 March 2016, 31 March 2017 and 3 April 2018 were purchased at average prices of 241.0p, 245.0p, 252.5p, 266.4p and 269.7p respectively.
- 12 On 3 April 2018, for all participants in the DBP, a maximum of 734,073 conditional shares were awarded which will normally be released on 3 April 2021.
- 13 On 19 April 2018/6 July 2018 and 30 November 2018, a further 16,961 conditional shares and 10,854 conditional shares were granted in lieu of entitlements to the final 2017 dividend and interim 2018 dividend respectively for all participants in the DBP. These shares were allocated at average prices of 287.6p/287.6p and 267.4p respectively.
- 14 The share buyout awards were granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. The awards compensate Philip Harrison and Leo Quinn for incentive awards which were forfeited on leaving their previous employers. Further details of these awards are set out on page 99. The closing middle market price of ordinary shares in the Company on the date of the awards was 212.4p and 253.1p respectively.
- 15 The closing market price of the Company's ordinary shares on 31 December 2018 was 249.3p. During the year, the highest and lowest closing market prices were 311.1p and 230.6p respectively.

PSP awards granted during the year

On 27 March 2018, the following PSP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price applied at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over three years to	Vesting date
Philip Harrison	Conditional	175% of salary of £400,000	270.1p	259,163	£700,000	25%	31 December 2020	27 March 2021
Leo Quinn	Conditional	200% of salary of £800,000	270.1p	592,373	£1,600,000	25%	31 December 2020	27 March 2021

Awards will vest to executives after three years, subject to the achievement of three independently measured performance conditions as set out below:

Metric	Performance condition	Threshold	Target	Stretch
1/3 rd relative TSR	Relative TSR against a comparator group of companies ranked 51-200 by market capitalisation in the FTSE All Share Index (excluding investment trusts), straight line vesting between points	Median (25% vests)	–	Upper quartile (100% vests)
1/3 rd cash	Group's Operating Cash Flow from continuing operations, straight line vesting between points	£141m (25% vests)	£176m (50% vests)	£211m (100% vests)
1/3 rd EPS	Group's EPS, straight line vesting between points	22p (25% vests)	–	31p (100% vests)

Executive Directors' recruitment terms

As previously fully disclosed in our remuneration reports dating back to 2014, as part of their recruitment arrangements both executive Directors received awards compensating them for incentive awards which were forfeited upon leaving their previous employers. Awards were granted in 2015 and vested in two tranches, subject to meeting stretching share price targets. The final tranches have now vested and the Committee believes the final value delivered to both executives reflect the strong performance and strategic change they have brought to the Company since their recruitment. As this is the final year which we expect to be reporting these values, we set out below details of the awards and final vesting below:

	Date of grant	Share price on date of award	Total number of shares	Number of shares vesting	Number of shares lapsing	Vesting from	Share price on date of first vesting	Value delivered to executive Director
Philip Harrison	11 June 2015 ^{1,3}	253.1p	30,831	21,529	9,302	31 December 2016	268.2p	£57,741
	11 June 2015 ^{2,3}	253.1p	61,662	25,071	36,591	31 December 2017	297p	£74,461
	Total		92,493	46,600	45,893			£132,202
Leo Quinn	2 January 2015 ^{1,3}	212.4p	604,256	423,704	180,552	2 January 2017	276.58p	£1,171,881
	2 January 2015 ^{2,3}	212.4p	1,208,511	492,589	715,922	2 January 2018	283.931p	£1,398,613
	Total		1,812,767	916,293	896,474			£2,570,494

- Vesting was subject to share price targets at the end of the vesting period based on a 60-day average share price as adjusted for dividends. The targets were 25% of this part of the award vesting for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p with no vesting for this part of the award for an average share price of less than 222p.
- Vesting was subject to share price targets at the end of the vesting period based on a 60-day average share price as adjusted for dividends. The targets were 25% of this part of the award vesting for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p with no vesting for this part of the award for an average share price of less than 250p.
- Leo Quinn's conditional award of 1,208,511 shares was the second tranche for which the performance period ended 2 January 2018 with the valuation of the 492,589 shares vesting calculated on the share price of 283.931p at the vesting date on 14 March 2018. Leo Quinn's conditional award of 604,256 shares was the first tranche for which the performance period ended 2 January 2017 with the valuation of the 423,704 shares vesting calculated on the share price of 276.58p at the vesting date on 16 March 2017. Philip Harrison's conditional award of 61,662 shares was the second tranche for which the performance period ended 31 December 2017 with the valuation of the 25,071 shares vesting calculated on the closing share price of 297p at 31 December 2017. Philip Harrison's conditional award of 30,831 shares was the first tranche for which the performance period ended 31 December 2016 with the valuation of the 21,529 shares vesting calculated on the closing share price of 268.2p at 31 December 2016.

Annual report on remuneration continued

Payments to past Directors

There were no payments to past executive Directors during 2018.

Statement of Directors' shareholdings and share interests

The interests of the Directors and connected persons (including, amongst others, members of the Director's immediate family) in the share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below:

Directors	Beneficially owned at 1 January 2018 ^{1,2}	Beneficially owned at 31 December 2018 ^{2,3,4}	Outstanding PSP awards	Outstanding DBP awards	Beneficially owned at 31 December 2018 as a % of base salary at 31 December 2018 ⁵
Philip Harrison	17,744	168,049	767,395	178,622	105%
Leo Quinn	798,663	1,554,821	1,851,147	398,585	485%
Philip Aiken	15,000	15,000			
Stephen Billingham ⁶	23,757	23,808			
Stuart Doughty	4,550	4,550			
Anne Drinkwater	–	–			
Iain Ferguson	55,000	55,000			
Michael Lucki	–	–			
Barbara Moorhouse	4,000	4,000			

1 Or date of appointment, if later.

2 Includes any shares held in the Company's all-employee Share Incentive Plan.

3 Or date of stepping down from the Board, if earlier.

4 As at 12 March 2019, there have been no changes to the above other than an increase in respect of ordinary shares held in the Share Incentive Plan for Leo Quinn by 109 shares.

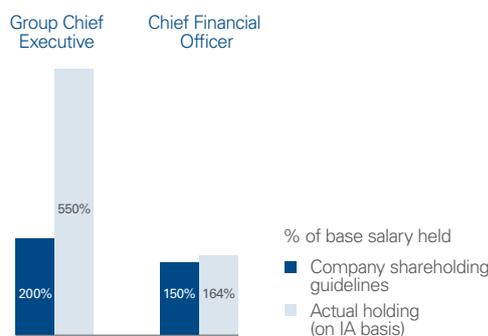
5 The closing market price of the Company's ordinary shares as at 31 December 2018 (249.3p) was used to calculate the value of shares beneficially owned.

6 Stephen Billingham was also interested in 36,070 convertible redeemable preference shares of 1p each in Balfour Beatty plc at 1 January 2018 and 31 December 2018.

Executive Directors' shareholding guidelines

The Group Chief Executive and Chief Financial Officer are required under the Company's shareholding guidelines to hold shares in the Company worth 200% and 150% of base salary respectively and must retain no fewer than 50% of the shares, net of taxes, vesting under their outstanding DBP and PSP awards until the required shareholding is met. Their beneficial shareholdings at 31 December 2018 as a % of base salary are shown in the table above.

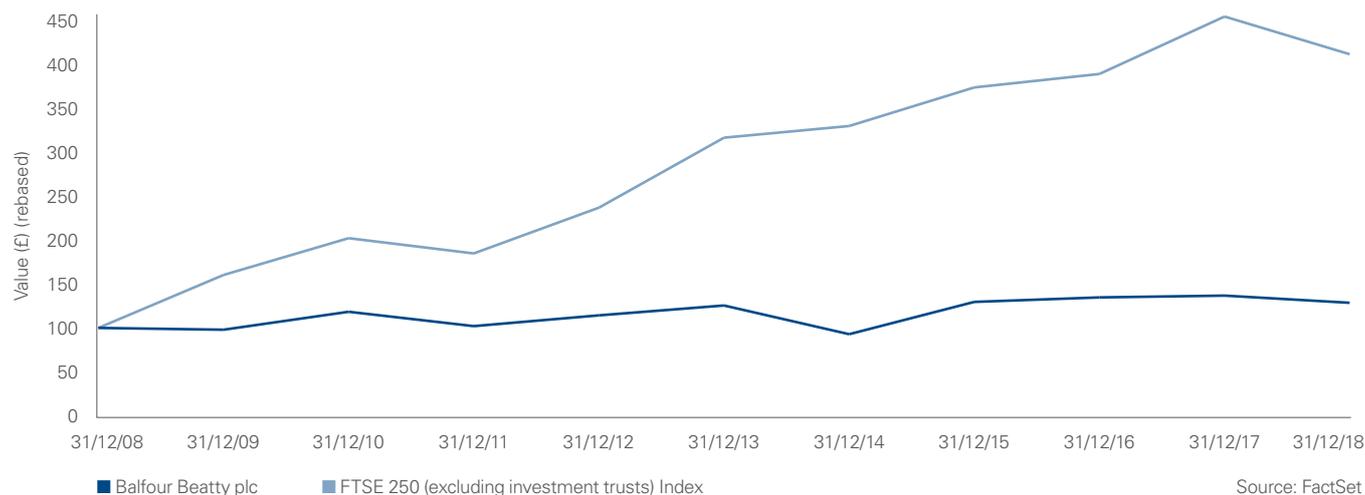
In line with the Investors Association (IA)'s guidelines, the calculations shown in the chart include shares beneficially owned at 31 December 2018 plus unvested shares, which are not subject to a further performance condition (outstanding DBP awards), on a net of tax basis. Both executive Directors' share interests met the Company's shareholding guidelines at 31 December 2018.



Performance graph

As in previous reports, the Remuneration Committee has chosen to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company is a constituent member. The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index, and have been calculated using 30-day average values.

Total Shareholder Return (TSR)



Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last 10 financial years are shown in the table below. The total remuneration figure includes the AIP award based on that year's performance and the PSP award based on the three-year performance period ending in the relevant year. The AIP payout and PSP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	Year ended 31 December									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total remuneration ^{1,3,4}	£1,617,233	£1,451,016	£1,514,007	£1,189,287	£961,350	£797,568	£1,442,070	£1,445,250	£4,124,104	£2,942,867
AIP (%) ²	60.4%	69.6%	65.3%	40.2%	21.0%	0%	47.0%	47.5%	97.0%	69.06%
PSP (%)	50.0%	18.4%	0%	0%	0%	0%	0%	0%	88.6%	64.17%

1 The figures for 2009 to 2012 relate to Ian Tyler who retired from the Board on 31 March 2013. The figures for 2013 and 2014 are annualised figures for Andrew McNaughton who was appointed on 31 March 2013 and stepped down on 3 May 2014. The figures from 2015 onwards relate to Leo Quinn.

2 Andrew McNaughton did not qualify for any 2014 AIP.

3 Total remuneration for 2017 has been adjusted from the total figure included in the 2017 Remuneration Report to reflect the actual valuation on the 26 June 2018 vesting date of shares vesting under the PSP 2015.

4 The figures for 2017 and 2018 exclude the vesting of awards made under the recruitment terms for the Group Chief Executive. Details of the recruitment terms are set out on page 99.

Annual report on remuneration continued

Percentage change in Group Chief Executive's remuneration compared with all UK employees

The table below shows the percentage change in the Group Chief Executive's salary, benefits and annual bonus between the financial years ended 31 December 2017 and 31 December 2018, compared with the percentage increase in the same years for all UK employees of the Group where UK employees have been selected as the most appropriate comparator.

	2017	2018	% change
Salary for year ended 31 December			
Group Chief Executive (£000)	800	800	0%
All UK employees (£m)	672	657	(2)%
Benefits for year ended 31 December			
Group Chief Executive (£000)	181	181	0%
All UK employees (£m)	47	37	(21)%
Annual bonus earned in year ended 31 December			
Group Chief Executive (£000)	1,164	829	(29)%
All UK employees (£m)	12	12	0%
Total remuneration for year ended 31 December			
Group Chief Executive (£000)	2,145	1,810	(16)%
All UK employees (£m)	731	706	(3)%

Pay ratio of Group Chief Executive to average employee

The Committee is mindful about the relationship between the Group Chief Executive's remuneration and that of the wider employee population. We are currently reviewing the calculations of the ratio of pay between the Group Chief Executive and the average employee which we intend to publish in the next Annual Report.

Relative importance of spend on pay, dividends and underlying pre-tax profit

The following table shows the Company's actual spend on pay for all Group employees relative to dividends and underlying pre-tax profit:

	2017	2018	% change
Staff costs (£m) ¹	1,193	1,113	(7)%
Dividends (£m)	20	27	35%
Underlying pre-tax profit (£m) ²	166	181	9%

1 Staff costs include base salary, benefits and bonuses for all Group employees in continuing and discontinued operations (excluding joint ventures and associates).

2 Underlying pre-tax profit is from continuing and discontinued operations.

Directors' pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2018. The executive Directors were in receipt of a cash allowance in lieu of pension equivalent to 20% of base salary as disclosed in the Directors' Remuneration table on page 93.

The pension contribution level for executive Directors contrasts to the majority of senior managers who receive around 13%-15% pension contribution/cash in lieu and the wider UK workforce who typically receive around 3% to 5% contributions. We are mindful of the requirement under the UK Corporate Governance Code relating to executive Director pension contribution levels and will address this as part of our Policy review in 2019.

External appointments of executive Directors

No executive Director held external appointments in 2018.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Remuneration Committee are independent non-executive Directors, as defined under the Corporate Governance Code. No member of the Committee has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group. During the year under review, the members of the Committee were as follows:

- Iain Ferguson (Committee chair)
- Philip Aiken
- Michael Lucki
- Barbara Moorhouse.

Anne Drinkwater joined the Committee on 1 January 2019.

The Committee also receives advice from several sources, namely:

- the Group Chief Executive and the Group HR director, who are invited to attend meetings of the Committee but are not present when matters relating directly to their own remuneration are discussed
- Aon plc.

Wholly independent advice on executive remuneration and share schemes is received from the Executive Compensation practice of Aon plc. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. Aon provided a range of advice to the Committee during the year, including:

- analysis of market practice and corporate governance update
- assistance with the drafting of the Remuneration report
- valuation of share-based payments for IFRS 2 purposes
- calculation of vesting levels under the TSR element of the PSP awards and the share buyout awards.

During 2018, fees charged by Aon for advice provided to the Committee for 2018 amounted to £47,210 (excluding VAT) (2017: £38,040). In addition, the only other services provided to the Group by Aon plc or its subsidiaries are for professional services supporting the administration of the UK healthcare trust.

Statement of shareholder voting at the AGM

At the AGM on 24 May 2018, the resolution to approve the Remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	399,105,828	86.37%
Against	62,970,570	13.63%
Total votes cast	462,076,398	100%
Abstentions	73,333,706	

The resolution to approve the Remuneration Policy was approved at the AGM on 18 May 2017 and received the following votes from shareholders:

	Total number of votes	% of votes cast
For	407,216,825	77.2%
Against	120,392,331	22.8%
Total votes cast	527,609,156	100%
Abstentions	81,587	

By order of the Board

Iain Ferguson

Chair of the Remuneration Committee

12 March 2019